PENSIONS

PROCEEDINGS

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MARCH 31, APRIL 1 AND 2, 1981

Canada

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Preface

Reform of the retirement income system is one of the major priorities of the Government of Canada. A series of recent studies has confirmed this need for change and proposed a variety of solutions to strengthen the Canadian pension system.

On March 31, April 1 and 2, 1981, the Government of Canada convened the National Pensions Conference to give the partners in the pension system – governments, the pension industry, employers, employees, unions, women's groups, pensioners and individual Canadians – an opportunity to assess these various proposals and to recommend changes which they believe will make the private pension system operate more effectively for the benefit of all Canadians.

In the view of the government, four major areas merited the particular attention of the Conference delegates:

- The inadequate coverage of the labour force;
- The lack of protection against inflation;
- The special barriers that women encounter in acquiring a reasonable pension entitlement; and
- The difficulties faced by mobile workers in keeping their pension entitlements intact.

In sponsoring the Conference, the federal government wanted to give all the partners in the pension system a forum to exchange ideas on these important issues. As well, the Government of Canada wanted to give all governments the chance to hear the views of the delegates. The Conference was designed as a starting point in the process of consultations with provincial governments and the other partners that will ultimately lead to an improved and strengthened pension system.

These *Proceedings* present a verbatim account, with translations, of the plenary sessions at the National Pensions Conference.

Conference Chairpersons

The Honourable Allan J. MacEachen
Deputy Prime Minister and
Minister of Finance

The Honourable Monique Bégin
Minister of National
Health and Welfare

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March 31, April 1 and 2, 1981
Government Conference Centre
Ottawa, Ontario

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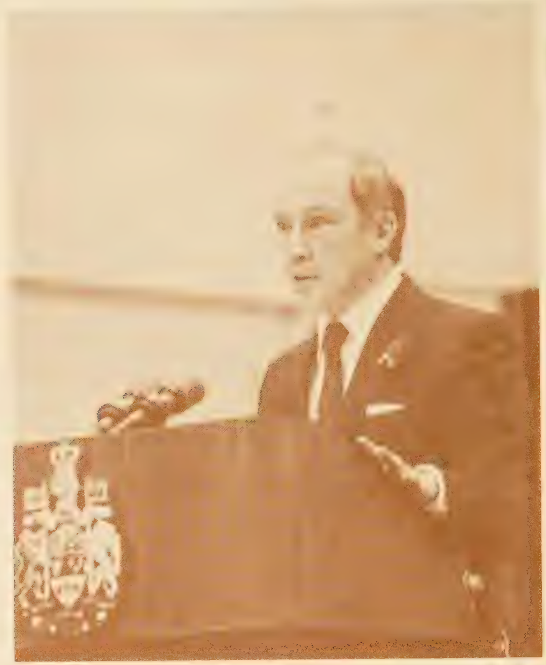


The Right Honourable Pierre Elliott Trudeau

Opening Address

The Right Honourable Pierre Elliott Trudeau
Prime Minister of Canada

My colleagues, Allan MacEachen, Monique Bégin, ladies and gentlemen, I had two reasons for coming here this morning. The first was to add to my friend and colleague Allan MacEachen's welcome to you, to welcome all of you, on behalf of the Government of Canada, to this vitally important Conference, one in which I know so many of you have put so much work and such high hopes.

The second is that, unlike a lot of the younger folk I see here, I have an increasing personal interest in the subject of pensions. I think you have heard it said, in another context, that I'm obsessed with my personal time-table. Well, I want you to know that if you want to provide me with a nice transition to my retirement, you've perhaps only got another five, ten years to work at it, and that's why I want to wish you luck!

In fact I asked Monique what I could say this morning which would motivate you to find a good solution to happy retirement, and to ensure that this Conference would be a great success. She suggested I announce that if you devise a great pension scheme for Canadians, then I might retire very soon. I know we're going to miss you Monique!

But one thing we don't want to miss is the opportunity that this National Pensions Conference has to achieve two very important objectives.

The first is to raise the general awareness of Canadians of the serious problems and frequent unfairness of our pension system. The second is to explore ways of reforming that system.

We know that the aging of the Canadian population adds urgency to our task. Whereas, today, nine per cent of our people are sixty-five or older, that percentage—as I'm sure you all know—will rise to twelve by the year 2001, and twenty by 2035. I know I shouldn't be quoting these statistics to people who know them so well; they are probably here for that very reason! But, of more immediate concern is the knowledge that fifty per cent of our current pensioners receive the Guaranteed Income Supplement, and a third of these receive the maximum Supplement, meaning they have little or no other income. We must ensure that these people, who have no other resources, can live in health and dignity.

The reform of our pension system is vital if we wish to build a country devoted to social justice, to sharing, and to fairness.

Pension reform represents a key step in a process of social reform which has a long and honourable history in Canada. As a people, we have consistently sought better ways to assure that all Canadians share fairly the wealth and opportunity of this country.

Throughout the history of Canada, and especially in the post-war years, particular social needs have asserted themselves at different times, and have been met by social programs which became permanent and beneficial features of our national life.

The devastating financial impact of losing a job prompted the Unemployment Insurance program. The needs of struggling young families brought about the federal Family Allowance program. The catastrophic effect of high medical bills at times of serious illness gave birth to medicare.

These are all programs in which the federal government took the lead in protecting Canadians against the worst effects of problems over which they had no control.

These are all Liberal programs adopted by successive governments sharing a common commitment to the rights and dignity of the individual person.

From the beginning of the process of social reform in Canada, the serious problem of poverty among the elderly gave rise to grave and continued concern.

The Government of Canada, in Mackenzie King's time, began a modest old age pension program, which was gradually improved over the years. In Prime Minister Pearson's day, the government added the Guaranteed Income Supplement for those who had no other income. As you know, the government which I lead has indexed these pensions to the cost of living.

This constant concern for the elderly poor is now the Canadian government's major social policy priority.

The Government of Canada has convened this Conference in order to listen to men and women representing business, labour, the pension industry, current pensioners, and those who will benefit in the future from pension reform. We want to find out how you would like to work with the provincial governments and ourselves to create a better pension system. I am very pleased to see many representatives of provincial governments here. I take it as a welcome indication of the equally high priority they place upon this issue, for

their role is central if we are to succeed in the work ahead of us.

The Government of Canada has not come to this Conference with answers, but with questions. We want to listen to you and participate with you and the provinces in elaborating a reform process.

Among the two important issues you will address is the question of what constitutes an adequate level of post-retirement income. What is enough? Does it vary with pre-retirement income levels?

It may be that the high personal savings of the better-off Canadians will provide them with nearly perfect retirement income. Meanwhile the poorest of Canadians may also receive somewhat adequate replacement incomes—certainly the majority of welfare recipients are better off after they become sixty-five than they were before they reached that age. The combination of OAS/GIS and the top-ups available in many provinces is better than virtually all social assistance levels.

It is the middle-income earners who often suffer the largest relative drops in income after retirement.

In this connection, the extent of coverage by the private sector pension plans should receive your attention, and your views will be of great interest to both federal and provincial governments. Put simply, people must be protected in their retirement years. The Canadian government has pledged that they will be better protected in the future than they are now.

Consider another key issue. Pensions which are not protected against inflation naturally tend to dwindle over the years. People who thought they had purchased protection for the rest of their lives find that they have more serious financial problems the older they become. The unfairness of that situation, particularly when the savings pool to which they have contributed may have been reaping inflationary interest premiums, is not tolerable in a nation which believes in social justice. So we hope to hear how you propose to deal with the problem of inflation and the consequent adjustment of pension benefits.

The third vital issue is that of portability and vesting. How can we ensure that Canadians can move freely across Canada, seeking the best opportunities and contributing to our national development, without feeling concern that they will leave themselves financially crippled in old age? How should that concern be balanced with the employers' concern over the stability of his or her labour force? How best can the issue of portability be handled in the private and public sectors?

A fourth issue before you is the treatment of women in the field of pensions. Of great concern to women are survivors' benefits. Stories abound of widows whose pension entitlements are drastically reduced or eliminated upon the deaths of their spouses. These women contributed for all their adult lives to the well-being of their families, and shared the burden of a reduced disposable family income over the years in order to save for retirement. They are then often left without any pension protection other than that provided by the public sector.

Those are among the crucial questions to which we hope to hear your answers. What do we foresee as the next steps in pension reform? As I have already emphasized, the answer to that question will take full account of your deliberations here, and the views and proposals which various organizations have put forward.

In speaking about the next steps to be taken, I must refer to the very high priority which we attach to this issue. We in the Canadian government hold the view that we must help first those who need help the most.

That is why our first legislative action, after the election of last year, where Allan made such resounding speeches introducing me here and there was to raise the monthly payment to those receiving the Guaranteed Income Supplement. That is why, also, we are determined to bring about substantial pension reform during our present mandate.

That determination imposes a sense of urgency upon the scheduling of consultations and of the legislation that will necessarily flow from it.

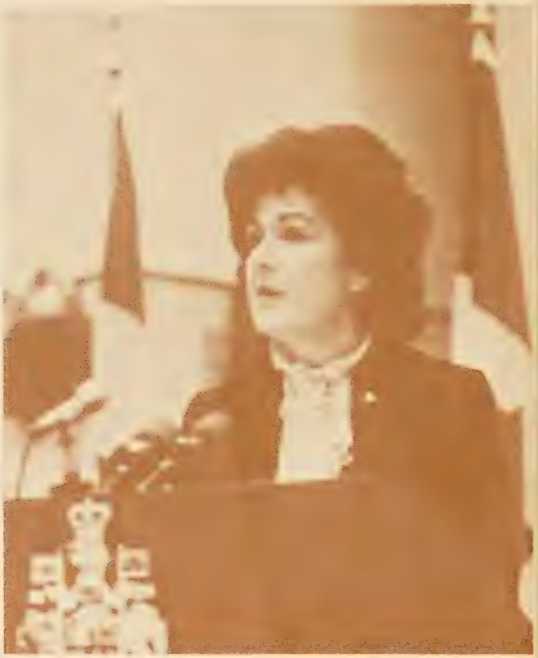
So, over the next few months, we will give very serious consideration to the advice we will hear from this Conference, and we will prepare a concrete set of federal objectives. Our objectives, of course, will reflect the fiscal and economic climate of the country.

We would hope that the provincial governments will agree to meet with us in July, to refine the objectives together, to learn more about provincial points of view, and to begin to work out ways in which Canada and the provinces will jointly implement pension reform.

Those federal-provincial discussions will obviously be very important, because of the pre-eminent provincial jurisdiction in the regulation of private sector plans, and because of provincial involvement in the Canada Pension Plan.

It is increasingly urgent to ensure a secure future for all Canadians as they reach their retirement years, and to ensure that all our people recognize the benefits and opportunities opened to them through a more complete and more equitable pension system.

That is our goal—an essential goal—worthy of this country. In the pursuit of that goal, I am very happy to count you, and thousands like you throughout Canada, as willing and committed partners.



Shirley Carr

The Income Situation of Elderly Canadians: Present and Future

Shirley Carr

The "Income Situation of Elderly Canadians: Present and Future" is not a subject that should leave anyone feeling very comfortable. The high incidence of poverty among the current elderly has been a well established fact for years and this fact is re-established time and again with each new report that is issued on pensions in Canada. The fact that large numbers of our current elderly live in an impoverished state should give us cause for concern about the justice with which the elderly have been treated. However, we should also be concerned because most of us will be part of the elderly population at some point in time and unless the income situation of the elderly has changed, then the future we can look forward to is far from bright.

Before turning to the actual statistics on the income situation of the elderly, a number of preliminary remarks are worth making. The first is that in talking about the incomes of the elderly, I am primarily concerned with the incomes of people over 65. For most Canadians age 65 marks a watershed in personal and economic experience. Active employment ceases to be the major preoccupation of one's waking hours and income from employment ceases to be the major source of people's income. In order to break up some needless monotony in these remarks, I will use the terms "retirees", "pensioners" and "the population over 65" interchangeably with the term "elderly".

Despite the fact that active employment ends at 65, this does not mean that the period of one's life after 65 is idle or inactive. Indeed if one's health and financial resources are adequate, it can be a full and active period of life. It can be a time in which community, social and recreational activities which a person has not had time for during their working life, can now be undertaken.

The period of one's life after 65 is also much longer than is often realized. For Canadian males who survive to age 65, the average life expectancy is 14 years and for Canadian women it is 18 years. In other words we are talking about a period that is equivalent to nearly 20% of one's life when non-employment income will be required. Moreover, the length of the retirement period will become longer as average life expectancies increase in the coming decades.

The retirement period is also a period during which almost half of Canadians are single. This means that when we think about retirement incomes, the relevant situation to think about for most Canadians is not a situation in which two married spouses are living together. Not only is the married partner's image an inapproprate way to characterize the current population over 65, but it will become a less appropriate image in the future.

If the lengthy period of retirement is going to be the happy and fulfilling period that we hope it will be, both for ourselves and for others, then our retirement incomes must be adequate. An adequate retirement income cannot guarantee a happy period of old age, but the absence of it can almost guarantee the opposite. This relationship between inadequate retirement income and general dissatisfaction with retirement was well documented in the two-volume report, *Retirement in Canada*, which was published several years ago by the Department of Health and Welfare.

If we all agree that incomes in retirement should be sufficient to support a full and active life, we are still left with the question of what standards should be used to judge whether retirement incomes meet that goal. I would like to suggest three standards that can be used to judge whether retirement incomes are adequate.

The first standard is that retirement incomes should be above the poverty line. This standard should be met regardless of a person's pre-retirement earnings. In a country that enjoys the general prosperity and abundant resources that Canada does, there is no excuse for failing to make this minimum income guarantee to the elderly population.

The second standard is that retirement income should be sufficiently high in relation to a person's pre-retirement income so that the move from active employment to retirement does not involve a substantial decline in living standards. Because there are certain tax advantages for the population over 65 and because certain work related expenditures cease at that time, it is probably not necessary that one's retirement income before taxes be equal to their pre-retirement income before taxes. A rule of thumb that will suggest whether this income replacement standard is being met is that pre-tax retirement income should be about 75% of pre-tax income before retirement.

The final standard I wish to propose for judging the adequacy of retirement incomes is that they grow with the cost of living. This standard may be viewed as a derivative of the first two, but it is worth stating separately in view of the controversy that has surrounded the question of pension indexing. Over the past fifteen years, which is the approximate life expectancy of some-

one retiring in 1965, the cost of living has gone up by 162%. Individuals who retired in 1965 with an unindexed retirement income would find today that they could only purchase 38% of the goods and services they could when they first entered retirement. People who faced such a substantial decline in their living standards over the period of retirement could have begun their retirement with an income that was adequate as judged by the first two standards, only to discover that inflation made their income increasingly inadequate as the years went by. The absence of indexing not only undermines the standard of living of the retirees, it permits the wholesale redistribution of income from retirees to other elements in society.

If we judge the incomes of the current elderly against these standards of adequacy the picture that emerges is not very satisfying. As of 1978—the latest year for which statistics are available—we still find that more than one quarter of all family units with the chief income earner over 65 were living on incomes that were below the poverty line defined by Statistics Canada. Approximately 60% of unattached individuals had incomes below the poverty line. Bearing in mind that almost half of the population over 65 is made up of unattached individuals, the incidence of poverty among the aged remains shockingly high.

As far as the income replacement standard is concerned, it is difficult to establish precise statistical evidence of the degree to which this standard is being met. The chief problem in this area is that we do not have data on the movement of individual incomes through time and therefore we cannot match the retirement incomes of people over 65 with their pre-retirement incomes. Nonetheless we know that the incidence of poverty among the current population over 65 vastly exceeds the levels of poverty among the active work force and this in itself suggests that the incomes of the over 65 population have dropped from their pre-retirement levels. In addition the federal government Task Force on Retirement Income Policy developed a methodology for trying to estimate the degree of income replacement that the current elderly is receiving. Their estimate was that the average income replacement for a wide spectrum of middle-income earning Canadians was 55% on an after-tax basis. This is far below the 75% gross replacement standard established earlier on in my remarks.

As far as the indexing standard is concerned, the degree to which it is met depends heavily on the source of retirement income. The current elderly derive their incomes from a variety of governmental and non-government sources. The federal government provides retirement income through the Old Age Security program and the Canada Pension Plan which has only paid full retirement benefits since 1976. In addition, the federal government provides retirement income to the low-income earners over 65 on an income-tested basis through the Guaranteed Income Supplement. It is a sad comment on the incomes of the current elderly that more than half of all recipients of the OAS receive at least some GIS payments and almost 20% receive the full GIS payment which is only available to people with no income other than the OAS. In addition, several provincial governments provide "Top-Ups" to the GIS which raise the minimum income guarantee to the population over 65 in their province. The chief non-governmental sources of retirement income are employment-based pensions and the returns to private savings. The forms of savings that are relevant to providing retirement income are extremely diverse but in recent years, the Registered Retirement Savings Plan has become the most noteworthy because of its widespread use among upper income Canadians.

Of the various forms of retirement income that are available to the current population over 65, the national pension programs (OAS, GIS and CPP) account for approximately 60% of all income going to this group and these programs are fully indexed to changes in the cost of living. Investment income accounts for another 25% of the income of the elderly and, generally speaking, it does not increase automatically with the rate of inflation. Finally, employment-based pensions account for just under 15% of the income of retirees and, generally speaking, there is no growth in this source of income with inflation. There are some notable exceptions to this rule in the public sector and in a handful of private sector plans. In addition, a significant number of large private sector plans increase benefits in pay in light of inflation. But these adjustments are not automatic and they seldom take full account of the degree to which inflation has undermined the real value of pension payments. Moreover, in the smaller employment-based plans there is no evidence one way or the other on the frequency or size of inflation adjustments.

It should be clear that the degree to which the indexing standard is met depends very heavily on the source of one's retirement income. The only sources of retirement income that fully meet the indexing standard are the national pension programs and the handful of employment-based plans that are fully and automatically indexed to the cost of living. Other sources of retirement income only meet this standard to a degree and in many cases, I am fearful, the degree is zero—or close to it.

In this context it is worth noting too, what happens when a person enters retirement with a total retirement

income that is made up of a fully indexed portion from OAS and CPP, and an unindexed portion from an employment-based plan. Under a favourable set of circumstances, a worker whose pre-retirement earnings were at the Average Industrial Wage might receive a retirement income from OAS and CPP equal to about 40% of his or her pre-retirement earnings and an additional 35% in an unindexed pension from an employment-based plan. During the first year of retirement the income replacement objective is met and the employment-based pension accounts for approximately 47% of total retirement income. But, after 15 years of inflation such as we have just had, the situation changes dramatically. The government portion of the total retirement income will still provide the equivalent of 40% of pre-retirement earnings. But the employment-based pension will now provide the equivalent of less than 13% of pre-retirement earnings rather than 35%. The total of pre-retirement income that is replaced will have dropped from the satisfactory level of 75% to the unsatisfactory level of 53% and the share of total retirement income coming from the employment-based plan will have dropped from 46% to 25%.

As judged by the standards of an adequate retirement income that I set out earlier in my remarks, the incomes of the current population over 65 measure up very poorly. A substantial percentage of the elderly—somewhere in the neighbourhood of 35 to 40%—are living on incomes that do not meet the minimum income standard. Moreover we have good reason to believe that large numbers of retirees are not receiving an adequate degree of income replacement and, on average, retirees are living on incomes that fall well short of this standard. Finally, as far as indexing is concerned, the incomes of the elderly only meet this standard fully to the extent that they rely on national pension programs or the handful of fully indexed employment-based pensions.

Whether the bleak income situation of the current elderly will be turned around in the future depends on the interaction of a complex set of factors. First and foremost among these sets of factors are political decisions that have to be made about the nature of the retirement income system that will provide for current and future retirees. The second key set of factors is the impact of some decisions that have already been made in both the public and the private sectors which have not yet had a chance to have their full impact on the retirement incomes of Canadians. The final set of factors is a combination of social and economic changes that will affect the incomes of the elderly. I would like to discuss these three sets of factors in reverse order and comment on their likely impact on the future income situation of the population over 65.

Retirement income programs are so thoroughly embedded in the social and economic fabric of society that the social and economic trends that will affect the income situation of retirees are innumerable. Obviously one could not comment on all of them in a brief talk. Nonetheless some stand out as having such an obvious impact on future incomes of retirees that they cannot escape comment.

The aging of the Canadian population has caused particular heartache to some observers of the Canadian pension system. These people have noted, quite correctly, that the income that the active labour force has to give up in order to provide incomes to the elderly under the pay-as-you-go national income programs, grows with the ratio of the population over 65 to active workers. They have looked at some rather extreme projections in the growth of that ratio and have surmised that somewhere in the future, the active work force will get so fed up with paying the retirement incomes of the future pensioners that they will rebel and refuse to pay those incomes. In other words they are worried that the cost of supporting an elderly population which is proportionately larger, will lead to an attack on the income programs for the future elderly.

Personally, I do not share this pessimistic view of the future. Even if the most dramatic predictions of the aging of the population proved to be accurate—and this is quite unlikely—the rates of economic growth that Canada has experienced over the past half century would outstrip the rate of aging of the population quite substantially. The effect of this is that the incomes of the active work force could continue to grow while providing for a larger group of older citizens. In short, the active work force will not have to sacrifice their real standard of living in order to provide for a larger group of retirees. In this connection we should also note that a number of European countries which have more generous national retirement income programs than Canada, have already reached a situation where the portion of their population over 65 is as high as that predicted for Canada.

If the aging of the population does not pose a serious problem for the incomes of the future elderly, the combination of higher rates of unemployment and higher rates of labour turnover do. Under programs that are designed to provide income replacement—like the Canada Pension Plan and employment-based pensions—continuous years of service under the plan is a major factor in determining a person's ultimate pension entitlement. Both the persistently high rate of unemployment that Canada has experienced over the past decade and the evidence of higher rates of labour mobi-

lity threaten the ability of workers to accumulate longer periods of continuous service under income replacement programs. Interruptions in employment with a particular employer are especially problematic under employment-based pensions because of their lengthy vesting periods and their general lack of portability. Under the CPP these problems are far less severe since vesting is automatic and the plan is completely portable within Canada. Nonetheless, the plan will ultimately require 40 years of employment between ages 18 and 65 in order to get full benefits at 65 and the persistence of high rates of unemployment may mean that many workers will not be able to satisfy this requirement.

Finally, the high rates of inflation that Canada has experienced over the past decade will persist for some time into the future and this fact promises potential jeopardy for the incomes of future retirees. As I noted earlier, this is obviously true in that the real incomes of retirees can be dramatically undermined during the retirement period. But inflation can undermine retirement incomes of the future pensioners in two other respects, both of which have their primary effect on the income replacement standard of adequacy.

First of all, if an employee has met the vesting requirements of a pension plan and has earned a deferred benefit, the value of the deferred benefit will decline during inflationary periods unless it is indexed. This is not a problem under the CPP which revalues all benefit credits at the time of retirement to reflect increases in the Yearly Maximum Pensionable Earnings between the time when contributions are made, and the time of retirement. But it is a serious problem under the majority of employment-based plans which do not revalue deferred benefits.

Persistent inflation can also undermine the incomes of the future elderly if the basic benefit formula under retirement income programs are not sensitive to increasing prices and wages. Approximately 60% of the members of employment-based plans are in plans that do this by tying pension income to the final or the best earnings that an employee has under the plan. But the 40% of members of pension plans that are not of this type, do not have the protection against the effects of pre-retirement inflation that these plans afford. The CPP accomplishes the protection against pre-retirement inflation by revaluing contributions in the manner described a moment ago.

In addition to these very general social and economic trends that will affect the incomes of future retirees, two more specific ones are worth noting. The first is that the proportion of the elderly population accounted for by single women will grow; and, women are increasingly active participants in the labour force. This combination of changes may produce some contradictory results when the incomes of pensioners are assessed in relation to the income standards that I discussed early on in this talk.

Because large numbers of women did not participate actively in the labour force in the past, they were economically dependent on their spouses both before and after 65. When they became elderly they relied on income from the OAS and survivors benefits from public and private sources. Unfortunately, they also found that they had to rely very heavily on GIS. But, the increasing labour force participation of women will change that pattern. Virtually all women who have participated in the labour force will be entitled to CPP retirement benefits in their own right and they will not have to rely on survivors benefits. Moreover, despite the combination of long vesting periods and higher job turnover among women, increasing numbers of women will become entitled to employment pensions in their own right. Both of these developments promise to improve the income situation of elderly women in the future and reduce their reliance on GIS.

On the other hand, these changes in the employment status of women may produce a minor paradox. As long as women remained unemployed prior to age 65 but received an OAS benefit equal to 15% of the Average Industrial Wage, they contributed very positively to the net replacement income of a couple. Their OAS benefit simply helped offset the income loss associated with their spouse moving into retirement. But now that the majority of women are significant income earners in their own right, their OAS must be treated as a way of offsetting their own loss in income as they move into retirement. Increasingly the replacement income of a couple over 65 will involve the replacement of two separate incomes. The paradox is that the changing labour force status of women may help bring elderly women up to the minimum income standard, but it may also make it more difficult to satisfy the income replacement standard for a couple.

It must also be noted that while the increasing labour force participation of women will improve their future retirement incomes, there are some age cohorts in which a very large percentage of the female population contribute to the CPP. But it remains the case that long periods of service under this plan by women still require important changes if all women are going to benefit fully from the plan. Most of the key changes have to take place outside the pension system itself. Steps must be taken to allow greater access to jobs by women; the barriers to jobs which have traditionally been defined as "male" must be broken down; and, we must get serious about equal pay for work of equal

value. Within the pension system, it is important that proposals such as the CPP child drop-out proposal be adopted so that women are not penalized for performing child-rearing duties that they normally take on.

In addition to these social and economic changes which will affect the incomes of future retirees, there are a number of decisions that have already been made by both governments and a combination of employers and trade unions which will also affect the incomes of the future elderly. Happily virtually all of these decisions will have a positive effect on the incomes of the future elderly once their full effects are felt.

By far the most important of these decisions was made 15 years ago when the Canada Pension Plan was established. The plan is now designed to provide the population over 65 with earnings-related retirement benefits up to a maximum of nearly 25% of the Average Industrial Wage. But because it was phased-in over a ten-year period, maximum benefits have only been payable since 1976 so that its full effect on the incomes of the elderly has not been felt by people over 70 years of age. Furthermore, it will be another 32 years before the full effect of its drop-out provision is felt.

As the CPP has matured it has made a positive contribution to both the minimum income standard and the income replacement standard. Virtually all commentators on Canadian retirement income programs see the CPP reducing the need for GIS payments. This is especially likely in view of the increased participation of women in the labour force. However, in relation to the income replacement standard, the positive contribution of the CPP is being offset to some degree by the fact that the OAS is representing a smaller and smaller proportion of average wages and salaries. The diminishing role of OAS stems from the fact that OAS benefits only increase with the cost of living which normally grows at 2% less per year than wages and salaries. Over the period 1964 to 1978 the OAS declined as a percentage of average wages and salaries from 20% to 14%. Thus while the CPP is making a positive contribution to income replacement in its own right, the OAS base on which it stands is proving to have a somewhat sandy foundation.

The maturing of the Canada Pension Plan is not the only program that has been affected by government decisions in a manner that will positively affect the incomes of the future elderly. The statistics that I cited earlier on the incomes of the current population over 65 were based on 1978 data which are the latest available. However, since that time the federal government has increased GIS benefits on two occasions. These decisions have already begun to have an impact on the incomes of the elderly. They should guarantee that all couples who are eligible for OAS benefits will have incomes that at least match the Statistics Canada poverty lines, while single individuals are guaranteed a level of income which remains somewhat below that standard. Not only is there room for improvement in the income guaranteed to the single population over 65, but the income guaranteed to couples will also have to increase in the future if minimum income standards are viewed as growing with the general wealth of society rather than prices.

One government decision that may not be as helpful in insuring that incomes of the future elderly will be sufficient is the decision made four years ago to change the residence requirements for OAS benefits. Prior to 1977 anyone who lived in Canada for ten years prior to applying for OAS benefits was eligible for a full OAS payment. But in 1977 the rules were changed so that ten-years residency only qualified a person for one quarter of full benefits. Full benefits only became available under one of two conditions: either the person was a Canadian resident for 40 years between ages 18 and 65; or, they had a combined residence in Canada and a country with which Canada had entered into a social security agreement that totalled 40 years between ages 18 and 65.

The problem with the new residence requirements is that the pace at which social security agreements have been signed is very slow. So far only four have been signed—with Italy, France, Portugal and the United States. This means that there is a chance that after 1987, a good number of immigrants reaching retirement age will not be eligible for full OAS and GIS payments. This fact may undermine the ability of elderly immigrants to meet either the minimum income or income replacement standards.

Outside the government sphere, decisions have been made that will also contribute to the incomes of the future elderly in a positive way. With or without the urging of trade unions, many employers have established and/or improved employment-based pensions. The growth in employment-based pensions was particularly marked between the end of World War II and the beginning of the 1970's. Since that time, however, the percentage of the labour force covered by employment-based pensions has remained quite stable in the 40 to 45% range. In addition, there has been some growth in the percentage of the members of employment-based plans who are covered by final or best average earnings plans. This percentage grew from 50 to 60% between 1970 and 1978 and some future pensioners will naturally benefit from this change.

Despite these improvements in the conditions under which the future elderly can earn pension entitle-

ments, we should also be aware of their limitations. It remains the case that the majority of members of the Canadian labour force is not covered by an employment-based pension plan. Increasingly mobile workers face problems in accumulating benefits based on long periods of service because of long vesting periods and a general lack of portability of pension credits. And, moreover, inflation eats away at the value of both deferred benefits and benefits in pay. In the case of the Canada Pension Plan, it is common to deal with the plan as if all workers will receive the maximum benefits payable under the plan. But the fact of the matter is that new retirement benefits being paid under the plan have tended to hover around 70% of the maximum benefit payable since 1976 when full benefits first became payable.

When the positive decisions that have been taken to provide for the incomes of the future elderly are assessed against the standards of an adequate retirement income, the picture that emerges is still not rosy. Some decisive steps have been taken in relation to the minimum income standard but the income replacement standard remains a problem. The federal government task force on retirement incomes tried to assess the incomes of the future elderly in relation to this standard based on current arrangement for providing retirement income. The general conclusion it arrived at was expressed as follows:

> *. . It is concluded that somewhere between one-third and one-half of those now under 65 who are in the middle-income group will encounter significant reductions in levels of well-being upon retirement when all retirement income sources—as well as changes in consumption patterns, tax treatment, and so on—are taken into account."*

As far as indexing is concerned, there is nothing in place now that the future generations of retirees can look forward to, that is not already available to the current retirees.

This brings me to the final set of factors that will affect the incomes of the future elderly—namely the political decisions that have to be made concerning the shape of retirement income schemes in the future. There is no doubt that much needs to be done if all of the future elderly are going to receive an adequate income. In fairness too, we should not be promising a lot to the future elderly that we are not willing to deliver to the current elderly. Whether Canadians will decide to provide the elderly with adequate incomes is a decision which is inherently political, in the broadest and best sense of that term, and it is also a decision which is inherently unpredictable.

Whatever decisions are made about the future of retirement income programs in Canada, we know that we will end up with a mix of public and private programs. We know too that in relation to the standards of adequacy that I have discussed, the most difficult ones to meet are the income replacement and indexing standards. These standards must be met for all Canadians and the problem we face as delegates is to consider the appropriate balance of public and private pensions that will meet them.

Many proposals are now coming forward for the reform of employment-based plans in order to meet these standards. The most extreme proposals call for mandatory employment-based plans. But none of these proposals deals simultaneously with all of the problems of coverage, portability and vesting, and the effects of inflation both before and after retirement in the same even-handed way that the public plans do. A mandatory plan that does not provide equal benefits for equal contributions is simply not acceptable. Therefore, while we contemplate the reform of employment-based plans, we can be under no illusion about the fact that improved benefits from public plans are absolutely essential if all Canadians are going to enjoy an adequate retirement income.

The job before us is a complex one. It requires thinking in terms of a total package of public and private sector reform. However, the fact that we are gathered here from all walks of life and all parts of the country should give us confidence that we have the experience and expertise to deal with these difficult problems. I hope that our deliberations will lead us to fruitful conclusions.

Shirley Carr holds the office of Executive Vice-President of the Canadian Labour Congress (CLC) to which she was elected in 1974. She is currently on leave of absence from her employment with the Social Services Department of the Regional Municipality of Niagara. She has been active in the labour movement since 1960 with the Canadian Union of Public Employees (CUPE) where she was President of local 1287. Provincially, she was President of the Ontario Division, while at the same time at the national level, she was elected General Vice-President of CUPE in 1969. Mrs. Carr held these offices until her election as an officer to the CLC. In 1980, she was appointed an officer of the Order of Canada and, was the recipient of the Centennial Medal of the Canadian Organization for Rehabilitation Through Training.

Claude Castonguay

Public and Private Dimensions of Pension Reform

Claude Castonguay

The present Conference constitutes an important step in a long process, linked to the history of our country, which has had the goal of improving the lot of Canadians in the last years of their lives. If one examines objectively the path which has been travelled, the progress made has been impressive. Medical science not only permits increasingly large numbers of persons to reach retirement age, but equally as important, it provides a much larger proportion of pensioners with reasonably good health. Our production methods and our standard of living have reached such a level that every Canadian can now look forward to his retirement years while still active in society. It is not so very long ago that such a prospect was limited to only a small minority of our citizens.

There now exists a surprising variety of programs, as a result of the initiatives taken by public and private authorities, which touch most aspects of the lives of older or retired people. These programs include housing, income tax, education, transportation, leisure time and travel. In fact, throughout the years a whole series of programs and decisions has been implemented, on the one hand to keep older Canadians from living in poverty, and on the other hand to ensure them retirement incomes which aim at maintaining their previous standard of living. But despite the progress made, the situation is far from being satisfactory, and efforts to improve conditions for those in retirement must clearly be continued. It is against this background that we meet today to consider various ways by which the pension system can be improved.

The role which has been given to me this morning is one of discussing, within their broad parameters, the public and private aspects of pension reform. You will agree with me that this is a difficult challenge, given the complexity of the question and the high level of knowledge of the participants to the Conference and their preparation for it.

As a beginning, it is essential to review briefly the main stages on the path up to this time. The first important act related to pensions goes back to the late 1920's. It authorized the federal government to share in the costs of provincial assistance programs to older people in need. Some twenty years later, the Old Age Security Act was adopted in 1951 by the Canadian Parliament, following a lengthy study by a joint committee of the Senate and House of Commons. The foundation of our system of financial protection for older people had just been put into place.

During the following decade, the system of income tax deductions for pension plans tied to employment and registered retirement savings plans took shape. Improvements were also made to the Old Age Security Act. The rapid evolution of our economy and lifestyles altered our fundamental ideas on retirement and on financial security for older persons. And, with the end of the 1950's and the start of the 1960's, different surveys and studies were begun both for the federal and provincial governments.

Those surveys and studies emerged in years which proved very fertile in pension development. The Canada Pension Plan and the Quebec Pension Plan became effective at the beginning of 1966 after lengthy negotiations between the federal and provincial governments. Ontario and Quebec, following the work of the Ontario Commission on portable pensions, adopted in the same period the initial legislation aimed at regulating supplementary pension plans. Their example was to be followed by the federal government and successively by various other provinces. In 1967, in order to complement these actions, and with the objective of directly attacking the problem of poverty, the Guaranteed Income Supplement Act took effect as a 'residual' (income-tested) program. Since then, six provinces have established additional supplementary income programs.

This period also witnessed the establishment, voluntarily or through negotiations, of a large number of pension plans in business and in public and semi-public services. It is useful to recall that, contrary to certain predictions made at the time, these plans not only survived but continued to grow in importance while the Canada and Quebec Pension Plans were being established. Business and governments responsible for these plans thus reaffirmed their concern for the pensions of their employees.

The last decade has been marked by a whole series of adjustments to public and private plans as well as to the legislation which regulates them. The lowering of retirement age, the necessity to exclude certain forms of discrimination, notably towards women, the increase in certain benefits to reduce poverty even further and to improve the protection of wage-earners, the need to better inform participants on the provisions of their plans, and finally the necessity to thwart the ill effects of inflation, all contributed to the need for these new

adjustments. It should be noted, however, that despite the large number of changes, no basic modification was made to the system during this period.

Thus, we have entered the present decade endowed with a pension system on the way to maturity, which in broad terms can be described thus:

(1) At the base, a pension indexed to the cost of living and payable to all Canadians 65 years of age and over (and at 60 years of age in certain circumstances). More than 2,200,000 Canadians receive this pension of $2,498 per year, which involves at the present time federal expenditures in the order of $6 billion.

(2) A second element of protection made up of a pension linked to work income and payable at 65 years of age to all Canadians who, since 1966, have been in the work force and contributed to the Canada and Quebec Pension Plans. This pension, which is also indexed, varies according to the level and length of the contributions. The maximum is 25% of the average industrial wage. In cases of disability, the pension can be paid before 65 years of age.
The number of recipients and the total amount of retirement benefits continue to increase markedly each year; the two plans are far from having reached maturity and from having their full effect felt. The maximum amount of retirement pension is presently $3,292 per year. During 1979-80 approximately 725,000 recipients received pension benefits under the CPP, totalling $1.0 billion. Keeping in mind that this plan has only become operational relatively recently, amounts of benefits are still rising rapidly; by 1984, the total will have increased to $2.4 billion. Clearly, even in their present form, the impact of CPP and QPP will become increasingly important in the overall picture.

(3) A large number of pension plans tied to employment are intended to supplement and complement these two basic elements of protection. These pensions, with very diversified provisions, and which are subject to frequent changes and improvements, generally cover employees in a business or in a government. There also exists a certain number of multi-employer plans. The contributions by the employee and the employer are tax deductible up to a certain limit.
In the course of the last 15 years, that is, since the establishment of the Canada and Quebec Pension Plans, the proportion of wage-earners covered by these plans has continued to grow significantly. It is estimated that more than 4 million salaried workers are presently covered under such plans. The contributions that they make, as well as those of their employers, are also increasing in an impressive manner: they reached in 1977 the sum of $6.2 billion, that is, nearly triple those made in 1969. As for assets of trusteed pension funds, they showed an increase of $4.5 billion in 1977 to reach $29.7 billion at the end of the year. These figures show without any doubt the continuing and substantial improvement in plans tied to employment.

(4) Persons who do not contribute to a supplementary pension plan can make contributions to a Registered Retirement Savings Plan (RRSP). Wage-earners can also make extra contributions to such plans in addition to those that they make to the plan associated with their work. The contributions are, since 1957, income tax deductible within certain limits.
According to available data, approximately 2.2 million additional workers regularly save towards their retirement through RRSP's. In this sector as in others, the situation is evolving at a rapid rate, and the number of persons who contribute to an RRSP is continually increasing as are their contributions. Although recent figures are not available, one has the impression that the growth in RRSP's has become almost explosive, and that this form of saving will in a few years make a very significant contribution to the sum total of pensions available to those in retirement.
Besides the characteristics already noted, the data thus permit us to establish that a large proportion of Canadians, as soon as their income is sufficient, decide voluntarily to save towards their future retirement. I think it is important to remember this willingness on their part.

(5) Federal and provincial supplementary income programs are intended to complement the other programs and, in particular, to cover persons outside the work force, those who only occasionally work, and low-income workers. These supplementary income programs aim then at keeping all Canadians above certain income thresholds, regardless of their previous participation in the work force. The maximum amount that can be paid under the federal plan is presently $2,508 for a single person and $3,868 for two persons, and the benefits are fully indexed.
At the end of 1980, the number of recipients had reached 1.2 million, that is, 53% of the recipients of the Old Age Security Pension. In the last year, payments under the federal program had reached more than $1.5 billion and 30% of the recipients received the maximum supplement. In fact, additional payments in the order of $300 million were also made

under provincial plans.

These latter facts reveal the first dimension of our present difficulties. They clearly show that many older people must still face problems of insufficient incomes and even poverty. This is disappointing for all those who believed that the establishment of the Canada and Quebec Pension Plans, in conjunction with other programs, would ensure that the Guaranteed Income Supplement program would be largely a temporary measure. Although it would be nevertheless premature to make very definite or all-inclusive conclusions based on these facts, they do however force us to admit that there exist stubborn problems of insufficient income for older people, which neither public and universal plans, such as the Canada and Quebec Pension Plans, nor plans associated with work or with RRSP's, have yet been able to attack.

In ending this short analysis of our present system of pensions and income security, I feel it necessary to make certain other observations. They are likely to help us better identify the future road to follow.

Our pension system, both in its public and private dimensions, has been established and gradually improved upon in stages. Generally, it is following thorough surveys and studies, and based on them, that changes and improvements have been made. In each stage, these improvements have been aimed at adequately meeting the needs identified by the studies, taking into account of course, their repercussions on the economy, and the wealth available. Moreover, as we shall see later, the size and even the nature of the problems which confront us today were largely unforeseeable when the main elements of the present system were established in the middle 1960's. The fact that these problems exist today should thus not surprise us, and we must be careful not to make global or excessively critical judgements on the system or its elements.

The development of our present pension system required the participation of the federal and provincial governments, business of all kinds, workers and their union representatives, financial and insurance institutions, and a whole range of advisors. I hope that this Conference will commit us to another stage where each one can and will fully assume his appropriate role.

Finally, as I have emphasized several times, the main elements of the system are continuously evolving and are far from having reached their maturity. One must therefore be very careful when dealing with analyses based mainly on impressions of the situation at a given point in time, and must be aware that the data on a period as recent as 1976-77 are no longer necessarily valid.

I have previously mentioned that the changes made over the last ten years have not fundamentally changed our pension system. However, during this period, our society and our economy have undergone serious changes, the consequences of which are still not fully understood. In my opinion, if we truly wish to understand the present and foreseeable situation of older people, we must take these changes into consideration. In other words, the problems of older people do not necessarily result from inherent deficiencies in pension plans, be they public or private or whether they have certain unique characteristics. To a large extent, these problems are rather the result of major, unforeseen changes which have transformed our society, our economy and our lifestyles.

Whereas during the twenty-five years which followed the end of the Second World War, the growth of our economy and of our collective wealth had been continuous and rapid, over the past decade this growth has slowed appreciably. Although the reasons for this change are too numerous to attempt in this analysis, among the most important reasons are the rapid increase in energy costs, and, at the worker level, changes in values and behaviour as they relate to work. In brief, these reasons, and others such as environmental concerns, now lead us to expect in the future a long period of weak economic growth.

One must be fully aware of the importance of this new perspective. Whereas during the post-war period, the increase in the collective wealth allowed for some new resource allocations to certain groups, without decreasing the incomes or resources of others, this period appears over for the foreseeable future. In the absence of growth, new resource allocations can only be made at someone else's expense. New choices will then be much more difficult to make, and will give rise to much more resistance than in the past. In fact, this new reality suggests that the period of great new social measures seems over, and we will have to follow the path of making adjustments to the systems already in place. It suggests equally, having regard to the need to maintain the competitive position of our industry, that we must be very conscious of the new costs that these adjustments would involve.

The high inflation of the last few years has also been a significant factor. Whereas before 1972-73, inflation remained a largely controlled and stable phenomenon, the rates have rapidly increased over the last few years to reach new summits. In fact, between the beginning of 1975 and the end of 1980, the Consumer Price Index increased 68.4%.

During this period, inflation has been such that several categories of workers have seen their purchasing power level off or even decrease. Older people, no

longer in the work force, and thus incapable of adjusting their incomes, are among those who have suffered the most. Moreover, our slow economic growth rate has limited the aid given them by governments and business.

One must not lose sight of the fact that the constant and high rates of present levels of inflation were until recently not foreseen. Let us recall as an example, that only a few years ago, in the federal fight against inflation, rates of 6% in 1977 and 4% in 1978 were forecast. In reality, the index successively increased to 8% and 9% during these two years.

In my opinion, one must not condemn too quickly retirement plans in the private sector for not always knowing how to respond efficiently and appropriately to this new problem. One must also remember that the inflation of the last few years has created far more serious difficulties for many businesses in the private sector than for public administrators. Finally, one must not lose sight of the fact that many people have believed with reason, and continue to believe, that it is inflation itself that one should fight, rather than search out new ways of reducing its consequences.

In ending this analysis of recent years, I believe it is necessary to mention certain other changes which have deeply changed our lifestyles. On the one hand, the proportion of women in the labour force has been rising steadily, and the mobility of workers has increased considerably. On the other hand, attitudes towards marriage and separation, and the women's liberation movement, scarcely new-born 15 years ago, have altered life patterns. The traditional family, and the forms of security it allowed, no longer has the same pre-eminence or stability. Indeed, whereas not so very long ago, the possibility of being able to retire at 65 years of age was for most a dream, the present practice of systematically retiring workers at that age is not only a fact, but has begun to be criticized because it deprives people of the right to work!

This analysis of recent changes will, I hope, allow for a better grasp of how the slowdown in the growth of the economy, inflation, and the different changes in our lifestyles and work patterns, have given rise to new situations and problems to which our system of pensions and income security has not yet been able to respond effectively. It would be surprising to have expected anything else. Furthermore, let us not forget that no industrialized country, faced with a situation of stagflation similar to what we have been going through for some years, has really found a satisfactory way of pulling itself out of it.

Thus, with the passage of time, it has become more and more evident that new changes to the pension system would become necessary. Numerous studies and surveys have been initiated by governments and public or private agencies. Among the most important are Quebec's Cofirentes + report, that of the federal Interdepartmental Task Force on Retirement Income (Lazar), and of the Royal Commission on the Status of Pensions in Ontario (Haley). One should also mention the studies done by the Senate Committee on Poverty, the Economic Council of Canada, the Canadian Labour Congress, the Canadian Conference on Pensions, the Canadian Life Insurance Association, the Canadian Council on Social Development, and many others. Although the reports and work mentioned differ enormously in their areas of interest, in their analytical content, and in their objectives, all are in agreement that gaps exist in our system of pensions and income security. They are also in close agreement as to the nature of the gaps, although they may assess differently their importance.

The reports are in agreement on the fact that, despite all the programs and resources implicated, too great a number of Canadians are in the grips of financial problems. Thus, where in 1978 the median income of all Canadians was $16,350, the median for older persons was $7,000. Moreover, among this group single persons and notably women are those who experience particular difficulties; in 1977, their average income was only $4,750.

More recently, in September 1980, it was noted that 53.3% of the recipients of Old Age Security also received benefits under the Guaranteed Income Supplement program.

The different surveys demonstrate that older people at grips with financial problems are not uniquely those who in the past have earned low salaries, or even marginally took part in the work force. On the contrary, available data indicate, for example, that many workers now earning average work incomes will undergo an appreciable decrease in income when they retire.

In brief, if on the whole new pensioners receive higher incomes than their predecessors, one must admit that the financial situation of older persons as a group, in relation to that of the active population, is gradually deteriorating as time passes. As I have already pointed out, this is one of the many negative consequences of the present high levels of inflation.

In my opinion, one must try to avoid drawing too startling conclusions based on rough or inadequate statistics on the incomes of older people. We do have in place now a variety of public and private programs which, even though they may not include cash benefits, nonetheless meet a range of needs of older people, and in consequence decrease the financial needs and risks to

which they would otherwise be exposed. Among the most important programs, or the best known, are hospitalization and health insurance, the free supply of drugs, higher income tax deductions, subsidies for accommodation—private or institutional, and reductions in property taxes and transportation charges.

In analyzing the situation of older people, one must also keep in mind the fact that many of them have done much to supplement their own retirement incomes. In this regard, it is interesting to note that 58% of older Canadians are owners of their homes; this percentage is practically the same for those with low incomes. In 1978, the net value of the properties in question was on the average approximately $30,000, and these values did not vary in relation to incomes. The needs of persons who own their own homes are clearly not as great as those of persons who rent. Unfortunately, to my knowledge, available statistics on older persons with low incomes do not allow for light to be fully shed on this rather important question, nor is it taken account of in qualifying for GIS or other income-tested formulae. However, they open up prospects of improving their lot, which could involve less of a burden on public expenditures compared to present solutions.

In any case, these data confirm, in my opinion, the widespread belief that a number of the recipients of the Guaranteed Income Supplement have set their affairs in order, often with the help of their children, in such a way as to make it easier to qualify for this program. For this reason, one must again be cautious in interpreting broad statistics on the number of recipients of this program. In brief, if one wishes to summarize the true financial situation of older persons, I believe that it is better than the collective picture which emerges from the bare statistics.

I would like to now move on to the main reasons, flowing from the pension system, which give rise to some of the financial problems for older people. First, as I have already mentioned, there is the fact that the Canada and Quebec Pension Plans, and even the great majority of supplementary pensions and RRSP's, are a long way from having reached maturity. In other words, the benefits from all these plans is increasing as time passes, and as a consequence, the situation for new pensioners is going to continue to improve. This is a very important factor.

In addition to this, the studies and reports have identified a series of maladjustments or deficiencies in pension plans tied to employment. As those features will specifically be the subject of discussions this afternoon and tomorrow, I am going to treat them quickly, inasmuch as your information kits contain material on each of them. For purposes of this present discussion, we can group the problems into four broad categories:

(1) Despite the continuous development of pension plans in businesses, and despite the popularity of RRSP's, a significant number of workers do not participate in any plan, other than the Canada or Quebec Pension Plans. A high proportion of these workers is found in the lowest income brackets, or work in small business.

(2) As a result of their great mobility, a goodly proportion of workers, not having met the requirements for their vested interests, lose their pension credits in changing jobs. This problem is even greater for women, not only because the nature of their jobs is different, but also because many of them leave the work force to look after their children. Moreover, since pension plan provisions which allow for the transfer of pension credits are still relatively rare, even workers who have vested interests cannot easily or effectively transfer their pension credits in changing jobs.

(3) Women are further handicapped in one way by the present pension system. In the case of divorce, a woman normally loses all rights to the pension credits of her husband. Many plans include inadequate provisions for continuing a part of the husband's pension following the death of the latter; yet, at the present time, in the population 65 years of age and older, 57% are women and this percentage is increasing because of lower female mortality rates.

(4) Even if it is clear that one must attack the problem of inflation on its own ground, rather than try to remedy its effects, one must admit that we will have to face for some time significant levels of inflation. This is why, whether we like it or not, one must examine carefully the protection that pension plans provide against the consequences of inflation.

    Old Age Security and the Canada and Quebec Pension Plans, as a result of their universal and public nature, are fully indexed. This provides a first bastion of protection to their recipients. The protection granted by supplementary private plans is usually limited, and in the form of ad hoc adjustments granted year to year. One must exclude from this most plans in the public sector, which provide for full indexation. Without discussing the merits of such indexation, it appears to many contributors in the private sector to be highly unfair.

    Finally, one must note that most deferred pensions, to which workers who change jobs have a right, no longer continue to be adjusted to salary increases and gradually lose their value as a result of inflation.

This analysis of the main deficiencies of our present

pension system is obviously not complete. Reports and studies have noted other problems such as systematic retirement at a given age, the need for additional information to paid workers, the protection of pension credits before the termination of a plan, etc. Without minimizing these problems, the time available does not permit me to tackle them this morning. They surely will be in the workshops.

Although many of the present deficiencies in the pension system were largely unpredictable, none of them are insurmountable—at least if one excludes cost considerations. Moreover, if one were to place part of the blame on employers for their lack of foresight, the blame would have to be shared with their unions, who, if my information is correct, sometimes attach little importance to pensions in negotiations.

Before we begin to look at the paths to take to improve the situation, I would like to try and clear up one area of possible disagreement. In effect, the analysis of the financial situation of older persons has brought to light the existence of problems of poverty and too low levels of retirement income. The questions under discussion here, such as the improvement of the system through the coverage of a greater number of workers, the more rapid attainment of rights by paid workers, the transferability of pension credits, the greater protection for women and increased protection in light of inflation, will surely have in the future a positive effect on reducing poverty. Beyond this aspect of the question, we must be aware that problems of poverty resulting from marginal participation in the work force, low levels of work income and analogous causes cannot be tackled within this Conference. These problems cannot be resolved by pension plans, whether public or private. The reason is simple: pensions under all plans vary according to the earnings of the workers. The solution to the majority of the problems of poverty and low income cannot come from pension plans, but rather from programs such as the Guaranteed Income Supplement and social assistance.

In other words, this Conference has as its objective the improvement of the present pension system, in order that a greater number of recipients do not have to experience on retirement too great a drop in their standard of living. At first sight, to better meet this goal, two major options exist—either the improvement of the Canada and Quebec Pension Plans, or the improvement of pension plans tied to work, including personal plans such as RRSP's.

Until now, I have wanted to be as neutral and objective as possible in my presentation in order to establish the facts and ask questions precisely. One must be aware that answers to these questions, whether we wish it or not, will be formulated based on a range of considerations which will not always be so objective. We may lose sight of the fact that we are discussing the financial situation of millions of people, who after all, are amongst the most vulnerable of our society. Purely political considerations are going to interfere, a fact which should neither surprise us nor shock us. For obvious reasons, and I say it without cynicism, older people are always near the head of the list of concerns of governments and of their leaders. That is why I believe it necessary to introduce in the remainder of my speech certain considerations of the same nature.

This warning having been made, let us now examine the first option, that of improving the Canada and Quebec Pension Plans. If the aim is to help those who earn less than the average industrial salary, and particularly employees of small businesses, the percentage of pension income under the Canada Pension Plan would have to increase from 25% to 40% or 50%. (To simplify the present discussion, I have consciously not considered the Quebec Pension Plan.)

Those who recommend this approach will find in it a number of advantages. All workers would be touched by the improvements, they would obtain immediate rights to the new pension credits which would be fully transferable and indexed, and the problems of protecting women could be solved by appropriate amendments. On the administrative level, the existing mechanisms in place would absorb the strain on the two plans without too much difficulty. But, as we shall see, the situation is far from being simple.

In its present form, *the true cost* of the Canada Pension Plan over the long term is between 8% and 10% of the work incomes covered. One can easily measure the extent of the additional costs that this type of improvement would bring. Even bearing in mind the adjustments that would be made to supplementary plans in operation, one is speaking of extremely significant new costs. In the present and foreseeable economic context, the imposition of such permanent and additional costs, which would extend to all sectors of the economy, certainly does not appear to be feasible.

One must also take into account the fact that very soon it will be necessary to raise the present contributory rate of 3.6%, if one wishes to maintain even the partially funded financing of the Canada Pension Plan. On this there is not much choice, unless one believes it possible that provincial governments would be ready to reimburse between now and the year 2003 some $17 billion that they have borrowed from CPP funds. Such an hypothesis does not seem plausible to me. If the route of improvement of the Canada Pension Plan were taken, it would therefore involve a double increase in

the contributory rate, which is even less acceptable.

Despite these problems, some may continue to prefer this route, for they believe that public and universal plans can provide results faster than private plans. The question is not as simple as that. If one wishes to shorten the period of maturation of a public plan, as was done in 1966, when the Canada Pension Plan was established, one must be aware that workers with higher incomes gain most from the proposal, and their gains could be substantial. I do not believe that this is the objective we are seeking. Moreover, it is precisely for this type of reason that the Canada Pension Plan is still not mature, as we have discussed earlier. Otherwise, from the beginning of the plan, the transition period would have been shorter.

One must also be fully aware that in our system, partially financed in advance, a part of the cost is passed on by the present active population to future generations. Now, we know that the Canadian population is aging quite rapidly and the burden represented by the older population will increase. One must wonder then, if future generations will be able and ready to support all of this burden which would be passed on to them.

Finally, one must examine the consequences of another massive transfer of savings from the private sector to the public sector. Although ways may exist to limit these consequences, it is surely one notion that cannot be thrown out, more especially in light of the fact that our economy is far from generating jobs in sufficient numbers, if one can judge from the high and persistent unemployment rates which are published each month.

Beyond these aspects, there is another which, in the short term at least, is even more important. We know that the federal government now faces a deficit in the order of $14 billion. Despite the record level of this deficit, the difficulties of reducing it are so great that it appears we are heading towards another deficit of the same scale in 1981-82. In brief, the government is confronted by enormous budgetary problems, and it is difficult to see when it will be rid of them, given the weak prospects for growth in the economy. There appears little margin to manoeuvre, especially to accommodate an increase in the order of one which improvement to the Canada Pension Plan would necessitate. The simple maintenance of the partial funding of the Canada Pension Plan already presents enough difficulty.

In my opinion these are the reasons, particularly the latter, why the federal government has decided to invite all those interested to consider ways of reforming pensions in the private sector. It should be noted that by the gestures that they have made and by the statements of their leaders, most provincial governments have indicated their wish to see the pension situation improve. There will be a strong temptation for some of them to act directly, for not all provincial governments have budgetary difficulties and they have full jurisdiction in the area.

The private sector must seize the opportunity to act. This is not the time for it to wonder whether changes are truly necessary. It is even less the time to engage in debates on the validity of statistics. The time has come to formulate answers to the most basic questions. Permit me to suggest a few:

- Must one envisage the imposition of a minimum and obligatory plan as the Haley Commission and the C.L.H.I.A. recommended, and as the Lazar Report suggests in one of its options? Would not this incur the risk that many would be happy with the minimum? One might wonder if, given the obligatory nature of such a plan, it would be possible to obtain useful results from it. Does such a minimum plan, owing to its irreversible nature, not risk excluding in the future much more dynamic and effective approaches?
- Would it not be preferable to solve the problems of workers in small business by facilitating the establishment of pension plans through easier registration procedures related to the income tax and provincial pension boards?
- Would it not be possible to allow small employers to contribute to the RRSP's of their employees within further limits?
- Is it important that pension coverage apply to younger people, say under 25, many of whom are in temporary or part-time work and who have low incomes?
- In order to improve the situation of women outside the work force, would it be possible to raise exemption limits available in such a way that their spouses could contribute for them?

In examining different options such as these, the willingness of workers to save towards their retirement must be taken into account. One must also remember that these options would give much more of a margin of flexibility to small business in accepting pension responsibilities toward their employees.

Finally, in the matter of private pension plans presently in operation, one may wonder if voluntary procedures to improve work conditions are sufficient to eliminate deficiencies in these plans, or if one must envisage amendments to federal and provincial acts on supplementary pensions. If this latter route is taken, as it seems to me will be necessary, one must be well aware of the costs of the amendments in mind, and the necessity to maintain, as much as possible, the uniform

character of the legislation.

The formulation of these questions has brought out the fact that, in truth, no government can act in isolation on pension matters. We know that the provinces have full jurisdiction. As for the Canadian government, it has a jurisdiction that it must share. In effect, the Canadian Parliament cannot modify the Canada Pension Plan without the consent of two-thirds of the provinces with two-thirds of the population (Quebec included). As for supplementary pension plans, the federal government and those of the provinces each act separately with respect to business and employees that fall under their jurisdiction, according to rules similar to those used in the area of labour relations. It thus appears clear that, for pensions, progress will follow best from a quest for agreement rather than through the route of confrontation.

In any case, the human aspect of the questions of interest to us strongly suggest avoidance of confrontation by any means. Throughout the years traditions have, moreover, developed in the matter of pensions. One must preserve them, and it is in this spirit that I invite you to enter into your discussions.

Claude Castonguay is an actuary and is currently Chairman of the Board of Imperial Life Insurance; President of Fonds Laurentien Inc. and a Director of several other companies. He served as an actuarial advisor to the Government of Quebec in the development of the Canada and Quebec Pension Plans. From 1970 to 1973, he was a member of the Quebec National Assembly during which time he was the Minister of Health and Minister of Family and Social Welfare. He was Chairman of the Quebec Royal Commission of Inquiry on Health and Social Welfare from 1966 to 1970, and he was a member of the Steering Committee on the Social Security Review from 1973 to 1975. Mr. Castonguay is currently a Special Advisor on pension reform to the Government of Canada.

The Honourable Stanley Knowles introduced Senator Croll.

Senator David Croll

Flexibility in the Age of Retirement

Senator David Croll

We are in a pension crisis. Our single, most urgent social need is pensions. Yet the pension figures are terrifying.

We must ask ourselves why we have the best medicare system in the world and the worst pension system.

That takes us back 17 years to the Joint Parliamentary Committee on Pensions. I was a member of the Committee and was much involved.

Ontario was the key. We needed two-thirds of the provinces with two-thirds of the population. That made Ontario the key. They would not agree to any of the proposals of the Committee. That was due in the main to a powerful insurance lobby in Ontario.

We finally had to accept the bare bones of a pension system which became the Canada Pension system.

The understanding was that the insurance company would fill the vacuum and fatten up the plan. I came to their assistance and supported the plan, believing that they would do as they said they would. The insurance companies did not carry out their commitment. They continued to cater to the carriage trade and left the rest of us tourists on the economy line.

The present contributions are as follows:

CONTRIBUTIONS TO PUBLIC PENSION PLANS IN VARIOUS COUNTRIES

	Insured Person	Employer	Government
France	3.45 %	7.70 %	none
Germany	9.00	9.00	subsidy of about 16% of total cost
Greece	4.75	9.50	contributes as needed
U.K.	7.75	8.75	approximately 18% of cost
Italy	7.15	16.35	lump sum subsidies
U.S.	6.13	6.13	some special old age benefits
Canada (Present)	1.80	1.80	none

The pensions available to the Canadian people at the present time come 53% from government, 35% from personal savings and 12% from the insurance industry. That has not changed in many years. The present contribution rate of 3.6% of annual salary and the benefits which provide only 25% of retirement income are among the lowest in the Western world. We must hold the Canada Pension Plan to our bosom and protect it. It is the best thing we have. For the moment, we need to double our contribution, have the housewives made part of the plan, raise the upper income limit and double the pension plan. We will still be making a far less contribution moneywise than any other country in the world.

We have had five studies on the pension plan to date and all but one have endorsed the Canada Pension Plan principle and indicate that therein lies our future. It is up to private pensions to build a better mousetrap. Here is all they have to overcome. Here is what the Canada Pension Plan offers the people:

(1) complete portability
(2) immediate vesting
(3) indexing
(4) universality – no discrimination
(5) mandatory survivor's benefits

We need some new thinking on adequate income. I like the suggestion of 80% of income. Housewives are a special problem. They need some special help.

Inflation has produced serious economic hardship and will continue unless you see the end of inflation. I can't.

Historically, there has been an implied social contract that the working generation will support the retired generation either privately or publicly.

It has been clearly established that men do not suddenly lose their physical and mental powers on their 65th birthday. For many, their vigour and ability is as good as it ever was. If proof were needed, you have only to look at the brilliant accomplishments of some statesmen, artists, and musicians in their 70's and 80's. Flexible or phased retirement is the trend of the future.

This business of putting people out to pasture at 65 may be an administrative convenience but there is no doubt that it causes a lot of human grief. For one thing, in an inflationary period, the economic well-being of older people may be badly damaged if their wages or salaries are suddenly cut off.

We have not yet arrived at the position where, in general, private and public pension schemes can prevent a sudden fall in the standard of living of families.

It is really not fair to suggest that many people are victims of their own folly. It is often not practical to accumulate enough capital to provide an acceptable retirement income and there is little an individual can do to counter the ravages of inflation.

It is a hard thing to turn some people loose at some arbitrary age and expose them to the chill winds of poverty in their declining years.

The concept of mandatory retirement has outlived its purpose as a major tool in human resource policy.

We are all in agreement that something needs to be done. Something dramatic needs to be done. The time is here. You have an opportunity to do something. Do it now.

Senator Croll spoke extemporaneously. The above text was provided by the Senator and represents a summary of his remarks.

Senator David Croll, Q.C., began his career in the public service in 1930 when he was elected Mayor of Windsor. He was appointed to the Senate in 1955 and is currently Chairman of the Special Senate Committee on Retirement Age Policies. His report entitled "Retirement Without Tears" was tabled in the Senate, April 15, 1980. He is a member of the Senate Committees on Banking and Commerce, External Affairs, Health and Welfare, Legal and Constitutional Affairs and Finance. In 1971, he was Chairman of the Senate Committee on Poverty, and in 1966, Chairman of the Senate Committee on Aging. He won the seat for the riding of Toronto-Spadina in the 1945, 1949 and 1953 federal elections. Prior to these appointments, he served overseas from 1939 to the end of the war, returning to Canada with the rank of Colonel. He served in the Provincial Legislature as Minister of Welfare in 1934 and as Minister of Labour in 1935.

The Honourable Gerald Regan, Minister of Labour, introduced Mr. Snyder.

The Honourable Gordon T. Snyder

A Provincial Perspective

The Honourable Gordon T. Snyder

I am very pleased to have this opportunity to address you today and to present the views of the Government of Saskatchewan on the crucial and pressing issue of pension reform in Canada.

We in Saskatchewan welcome this Conference in that we believe it represents the beginning of a new stage in the process of pension reform. Over the last several years Canada's retirement income arrangements have been extensively reviewed. The reports are now complete. The time for study has ended.

This Conference provides an opportunity for the many actors in the pension field to comment on the analyses of pension issues which have been put forward and the alternative solutions which have been proposed.

In Saskatchewan's view this Conference is not an end in itself. Rather it should be the beginning of a national decision-making process on pension reform in Canada leading, in the not too distant future, to concrete action to substantially improve our national pension system.

In convening this Conference, Madame Bégin has expressed the federal government's preference for reform of Canada's pension system through the private sector. She has challenged those of you in the private pension "industry" to present your views and your proposals for improving the private pension system.

The views of the Government of Saskatchewan on reform of Canada's pension system fundamentally differ with the federal government's preference for reform through the private pension system. We have concluded that a strengthening of Canada's *public* pension system is simpler, more effective and more efficient than expansion of the private system. Thus our views may be unpopular with many of the private sector delegates here today.

Nonetheless, we wish to present these views to you, and to the Canadian public, because we believe that Canadians will be best served by a debate on the inadequacies of our *total* pension system—both public and private sectors—and the appropriate solutions to these overall inadequacies.

In our view, it is insufficient to simply ask what is wrong with Canada's private pension system. Rather, we must know the shortcomings of our nation's total retirement income arrangements. Similarly, it is insufficient to ask how the private pension system can be improved to ensure adequate retirement incomes. Instead, we must seek the best way to provide such incomes. What are the inherent strengths and weaknesses of public versus private sector measures? What roles should the public and private pension systems play in the solution of Canada's retirement income problems?

It is these questions which we address in our brief. Let me review for you some of our main points.

The elderly in our society are often deprived of status, authority and economic security. Their ability to live full and independent lives may be eroded. They may find themselves without a recognized role in the community.

Our predominant social values continue to emphasize the young and ignore the elderly. Improving retirement incomes will provide the economic base on which an improved quality of life for the elderly can be built. But fundamental changes in our social attitudes and institutions will also be needed if the elderly are to be fully recognized as persons who can make a valuable contribution to the community.

What about retirement incomes? The recent studies are unanimous. Canada's current retirement income arrangements are inadequate. Too many of our elderly citizens are forced to live in poverty, while a great many more must suffer a significant reduction in their standard of living following retirement. Moreover, these circumstances are not expected to substantially improve in the future under our current retirement income arrangements.

This situation results from the failure of both our public and private sector pension arrangements.

The first tier of Canada's retirement income system—the Old Age Security and Guaranteed Income Supplement programs—despite recent improvements, have failed to ensure that senior citizens have incomes above generally accepted poverty levels. We have failed to ensure that elderly Canadians receive even a basic share of the wealth of this country—wealth which they played a very major role in creating. This is unacceptable to Saskatchewan, as we believe it is to most Canadians.

The Government of Saskatchewan therefore agrees that Canada's basic retirement income programs—OAS and GIS—must be improved so that together they ensure that all elderly Canadians live above generally agreed upon poverty levels.

The second and third tiers of Canada's pension sys-

tem—the Canada and Quebec Pension Plans, and the network of voluntary private pension and retirement savings plans—have also failed. They have failed to ensure that middle-income Canadians can generally maintain their pre-retirement standard of living after they retire.

The benefits under the Canada and Quebec Pension Plans are currently established at quite low levels. As a result persons with no private sources of income after retirement but maximum Canada or Quebec Pension Plan benefits will qualify under *all* circumstances for partial GIS benefits—our welfare program for the elderly.

The Guaranteed Income Supplement, while still inadequate, has been up-graded several times since it was introduced in 1966. The Canada and Quebec Pension Plan benefits have not been similarly improved. Consequently, Canada and Quebec Pension Plan benefits will no longer replace GIS payments for earners as was originally intended.

The failure of the voluntary private pension system is now well documented. We have been discussing it here yesterday and today.

Put simply the private pension system fails to cover the majority of paid workers in Canada. In fact, in the private sector, more than two-thirds of Canadian workers and more than 75% of Saskatchewan workers are *not* currently covered by any private pension plan.

The vesting and portability provisions in current private plans are often archaic. They recognize neither the social need for a pension entitlement for all periods of employment, nor the reality of labour market mobility today.

The pension promises that are made by many private plans have proven to be deceptive. The benefits are here today and gone tomorrow, eaten away by inflation. During an average pensioner's lifetime, the value of his or her benefit is reduced by 65 to 75% by a constant 8% inflation rate, a rate which at the present time we would all be glad to see again. As for deferred pensioners, by the time they begin to collect their pensions, they may be next to worthless.

In addition, women have been poorly served by the private pension system because of its lack of mandatory benefits for surviving spouses, and the lack of splitting of pension credits on marriage breakdown.

In fact, for many workers, the private pension system as it exists today provides no real benefits. They put in their money every payday, and on termination of employment they receive back their contributions with a minimal rate of interest, often 4 or 5%. They are worse off than if they had deposited their contributions in a savings account. They never receive one cent of employer contributions.

Many employers with private pension plans have benefitted from high interest rates which have reduced their required pension contributions. They have been slow to pass these windfalls of inflation along to pension plan members. In this respect, life insurance companies with their group annuity contracts have set a particularly bad example.

Despite these severe limitations and inadequacies in the present private pension system, it nonetheless receives substantial financial support from the public sector. Based on the tax expenditure account issued by the federal government, the deferral of income tax on the earnings of registered pension and retirement savings plans is estimated to cost the federal and provincial treasuries $3.8 billion in foregone tax revenues in 1980. In this context, the private pension system is heavily subsidized by government. To put this "tax expenditure" cost in perspective, it is equivalent to more than 70% of Canada's total annual expenditure on Old Age Security. Alternatively it is more than twice current Guaranteed Income Supplement payments.

So all three tiers of Canada's present retirement income arrangements have failed. What then is the nature of the solution? How do we best ensure that Canada's elderly citizens do not suffer a substantially reduced standard of living in retirement?

The Government of Saskatchewan believes that this can only be accomplished if we recognize that ensuring adequate retirement incomes is primarily a community responsibility, and not simply an individual or family responsibility. Only through collective action can we set in place those mechanisms that will ensure adequate retirement incomes for all elderly Canadians, now and in the future.

On this fundamental issue, we part company with the philosophy espoused by the recent Ontario Royal Commission. It is not realistic, in our view, to expect all individuals to adequately provide on their own, for their retirement. However, we note that the Commission's proposals for a Provincial Universal Retirement System (PURS) seems in fact to recognize the need for community responsibility in the form of compulsory, legislated pension arrangements.

Similarly, the other major reports have also noted the need for compulsory measures if the coverage problem is to be resolved.

Our experience in Saskatchewan, in amending the Pension Benefits Act reinforces our conclusions that a compulsory solution to the pension problem is necessary. Generally speaking, we believe that we have gone as far as is reasonably possible in amending our Act in the context of voluntary pension coverage.

This is not to say that we are satisfied with the provisions in our amendments with respect to vesting, or portability, or minimum employer contributions. Rather, it is to say that we felt we could not go farther in these areas without causing many employers to terminate their pension plans. Thus, while we view many of the recommendations in the recent reports for early vesting,portability of pension credits, indexing, and matching employer contributions as being highly desirable, we doubt that they are workable within a *voluntary* private pension system.

What, then, are the characteristics of an adequate retirement income system? What compulsory measures can best ensure adequate retirement incomes for all Canadians?

To answer these questions, the Government of Saskatchewan has developed a set of principles for an adequate retirement income system. They are, we believe, rational and reasonable criteria for evaluating alternative measures. They are the crux of our position.

(1) **Universality**. An adequate retirement income system must be universal. Its various components must provide benefits to all Canadians, earners and non-earners. The earnings-related part of the system must include all earners regardless of age, length of service, or type of employment. It should also include the self-employed.

(2) **Portability**. Membership and benefit entitlements should be accumulated for all periods of paid employment and benefit accumulations should not be reduced by changes in employment or movement in or out of the labour force.

(3) **Pooling**. Within our national pension system, there should be a pooling of contributions in order to spread the risks and uncertainties of old age and to allow for flexibility in meeting changing retirement income needs over time.

(4) **Equity**. The system must be equitable. Benefit and contribution formulas must be fair and should generally be progressive. There should be no discriminatory provisions. In particular, the system should treat men and women on an equal basis.

(5) **Adequacy**. The benefits must be adequate. The system must ensure that the incomes of all retired persons are maintained above generally accepted poverty levels. At the same time, it must ensure that middle-income earners do not suffer a significant decline in their standard of living following retirement. It must also ensure that the real value of pensions is maintained.

(6) **Appeal Rights**. All participants should have the right to appeal decisions affecting their benefit entitlements to an independent third party. Only in this way can fair treatment for all be guaranteed.

(7) **Accountability**. The retirement income system must be accountable to its participants—the public. It must operate in, and be seen to operate in the public interest.

(8) **Affordability**. The system must be affordable. It must provide benefits at a reasonable cost that the community can afford. It must have the simplest possible administrative structure and must minimize overhead costs.

In our brief we have compared expanded Canada and Quebec Pension Plans to a system of mandatory participation in private pension plans meeting legislated minimum standards. In doing so we have used a "best possible" proposal for mandatory private coverage. For the most part, it is similar to that presented by the Canadian Life and Health Insurance Association.

We have compared these two alternative approaches, criteria by criteria, in our brief. We have concluded that expanding the Canada and Quebec Pension Plans much more fully meets the criteria than would a system of mandatory private coverage.

In our assessment, an expanded earnings-related public pension system is notably superior to mandatory private coverage with respect to the universality, portability, pooling, adequacy and affordability criteria, and marginally better in relation to the remainder.

Put quite simply, expansion of the Canada and Quebec Pension Plans is simpler, easier to understand, more fully satisfies the criteria we have outlined for an adequate retirement income system, and is generally more effective and efficient than mandatory private coverage could be.

As we point out in our brief, this conclusion is neither startling nor radical. In fact, it is in the mainstream of Canadian social policy as it has evolved over several decades.

It is consistent with decisions by governments of all political persuasions to establish compulsory workers' compensation programs; a national, universal medicare system; an unemployment insurance income maintenance program; and the original, basic Canada/Quebec Pension Plans.

It is also in line with the public pension system of several other western, industrial nations which provide better benefits with higher contribution rates than exist in Canada today.

Indeed, it is the mandatory private coverage alternative which is unproven and a departure from Canadian tradition. When it has been tried in Canada, as in the case of the initial medicare plan in Ontario, it has proven to be unworkable, and has been replaced with a public insurance approach.

Our brief goes on to examine a number of design issues with respect to expanded Canada and Quebec Pension Plans. These are issues which are of concern to the Government of Saskatchewan and which we believe should be addressed in reforming our pension system. I will not review them all here, although I do wish to mention three of them.

We are concerned with the impact of an expanded pension system, either public or private, on low-income earners. They would be required to contribute more out of their already inadequate current incomes, but their additional pension benefits in retirement would be offset in whole or in part by reductions in GIS and provincial "top-up" benefits. Thus, low-income earners could be made worse off over their lifetime by measures to solve the overall pension problem. This is unacceptable to Saskatchewan. It is an issue which must be addressed and resolved in reforming the Canada and Quebec Pension Plans.

In a somewhat similar way, we are concerned about the impact of expanding compulsory pension coverage on small employers. Improving the Canada and Quebec Pension Plans may actually reduce the pension costs of employers who currently have private pension plans, while significantly adding to the costs of those employers who do not. For the most part, this would mean reducing costs for large employers while increasing them for small employers. We believe that this issue must also be addressed.

With respect to both these issues, it may be necessary to revise the contribution systems for the Canada and Quebec Pension Plans to make them more progressive. This would involve the introduction, to some degree, of the "ability to pay" concept. While this would be a significant change, we note that the Cofirentes recommendations also incorporated income redistribution features to a substantial extent.

Saskatchewan also believes that the issue of participation of home managers in the Canada and Quebec Pension Plans must be tackled. We are sympathetic to the position that persons working in the home looking after children should not be penalized for this valuable service to society by receiving reduced pensions. Voluntary contributions to the Canada and Quebec Plans are, it is generally agreed, an inadequate solution. The child-rearing drop-out provisions, while desirable, result in unequal treatment for women with different earnings and labour market histories. A more fundamental solution involving participation by all home managers and a system of subsidies for low-income families, deserves, in our view, further attention.

All three of these issues—the treatment of low-income earners, the impact on small employers, and the participation of home managers—are matters which can be addressed in the design of a national, earnings-related pension system. It would be much more difficult, if not impossible, to deal with these issues within a mandatory private coverage approach.

Thus, these particular concerns about the design of an adequate earnings-related system reinforce our conclusion that the appropriate public policy is to expand and revise the Canada and Quebec Pension Plans.

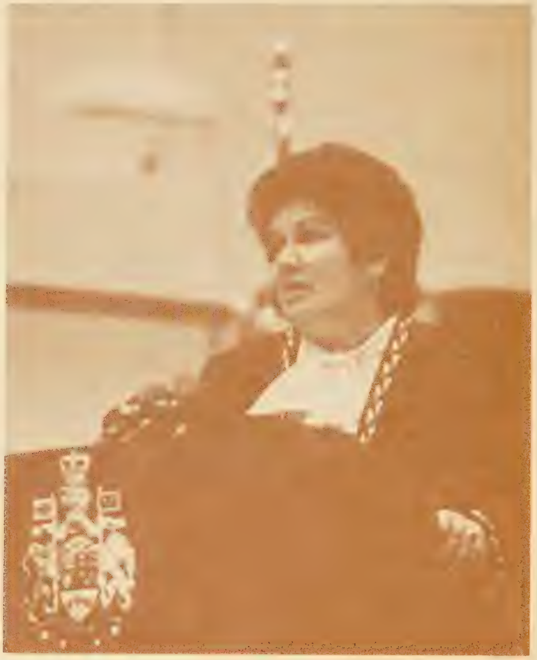
It should be noted that we are not recommending the total elimination of private pension plans. As in other social security fields, the private sector would continue to play an active and vital role in providing additional and supplementary coverage. We would expect, for example, that the private sector would provide additional coverage to higher income earners, and early retirement benefits to those in occupations where early retirement is recognized as desirable. This "customizing" role in meeting the special needs of specific groups of employees is one which the private sector is well able to meet.

In closing, let me express our hope that following this Conference, the eleven jurisdictions in Canada with responsibility for pension matters will sit down together to consider pension reform and to determine the possibilities for agreement. We believe that decisions must be reached as soon as possible. The situation will only get worse as time passes.

If no agreement on reforming Canada's retirement system can be reached in the near term, then the Government of Saskatchewan will have to very seriously consider what further pension reform measures we can undertake on our own to ensure more adequate retirement incomes for our citizens. We are committed to this objective.

The Honourable Gordon T. Snyder has served as a Member of the Legislative Assembly for Moose Jaw since 1960. He was named to his present position as Minister of Labour in June 1971. He also holds the offices of Vice-Chairman of the Saskatchewan Power Corporation Board and Minister responsible for the Worker's Compensation Board, the Labour Relation Board and the Minimum Wage Board. Previously he has held the post of Minister of Social Services (formerly Welfare) and Minister of Government during different periods of time while always retaining the Minister of Labour portfolio. Mr. Snyder served overseas until 1945 after which he returned to his employment with the Canadian Pacific Railway. He still maintains full seniority rights as a locomotive engineer with the Canadian Pacific Railway.

The Honourable Martin O'Connell introduced Mme Bégin.



The Honourable Monique Bégin

Some International Comparisons
The Honourable Monique Bégin

I would like to begin this address by thanking each and every one of you for coming and participating in this historic Conference. In the past several years as Minister of National Health and Welfare, I have had the privilege of being the guest of many of the groups you represent. This has given me the chance to discuss pension issues with many of you, and to see your viewpoints on those problems and the possible solutions. I have invariably been impressed by the sincerity of all the partners and their commitment to building the best possible pension system in Canada. I have found that desire to be common to pensioner groups, labour organizations, women's groups, employers, pension managers, the insurance industry, social development groups, economists, and many others.

And if anything has become clear to me in meeting all these groups, it is that no one individual or organization has the single, definitive answer to our pension problems. That is why this Conference is so important, because it is the first time that representatives of so many parts of our pension system have gathered to discuss the problems and issues together. And speaking selfishly, if it only helps to sensitize everyone to the difficulties governments face in trying to reconcile so many different and sometimes contradictory views, then the government may consider this Conference to have been a resounding success. But of course, what we are really seeking is not sympathy, but solutions.

In looking for better solutions, I have not confined myself to talking only with Canadians. I have made it a point to look at the systems of other countries and I have taken advantage of my responsibilities in the field of international social security to travel abroad and see for myself how other countries have dealt with issues very similar to those facing us here in Canada. Last fall, I had a chance to visit with Ministers, officials, and private sector organizations in four European nations—France, the United Kingdom, West Germany and Sweden. Their experience was of special interest to me, because in several cases they have already scaled that so-called "pension mountain" that we hear so much about. That phrase is, in fact, a translation of a word coined by the West Germans, which I hesitate to try here—the"Rentenberg". Frankly, from the way some people approach this issue, you would think the word was "iceberg" and our pension system was the"Titanic".

There has been a great deal of discussion and concern about the problems we face in the future in supporting a growing pensioner population if current demographic predictions hold true. But in Europe they are already dealing with a pensioner population which is proportionately as large or larger than it will be in Canada well into the next century. From their experience, I believe we are given some valuable insights into our own capacity to provide a decent living standard for our pensioners, now and in the future.

Just over a year ago the Economic Council of Canada published a report called *One in Three*. The title refers to the prediction that pensioners will account for one-third of the adult population in Canada by the year 2030. That means that there will be only two workers for every pensioner 50 years from now. This is exactly the situation in West Germany *today*. West German officials told me that this has indeed caused some problems, which have been aggravated by an economic slowdown following the oil crisis and by the introduction of a very generous and popular early retirement provision. This did not, however, cause the economic collapse or social security bankruptcy that some of the more pessimistic prophets have predicted for Canada's future. Instead, West Germany was able to get its plan back on a sound financial footing with some relatively minor adjustments. The most notable measure was a temporary cap on indexation. However, to put this in perspective, I should point out that the public pension plan in West Germany is indexed to wages. This generally results in larger increases than the price indexation we have for Canadian public retirement benefits. Thus, in spite of the temporary cap on indexation, West German pensions have still been fully protected against rises in the cost of living.

I might also mention that the private pension plan system in Germany also has a provision for cost-of-living increases.

Another fact that particularly impressed me was that, in Germany, only 2% of their pensioners require any income-tested public assistance on top of their pensions; compare that with the 53% of OAS recipients in Canada who also receive GIS.

One thing I saw very clearly was that there are striking differences in the approach to pensions from one country to the next. Principles which are considered fundamental in one place may be totally disregarded elsewhere. In France, for example, their private plans are not fully funded as they are here in Canada. Instead they operate on a pay-as-you-go basis with liabilities of

the various plans shared by other plans across the country through a system called "répartition". This very unusual system evolved after repeated monetary crises had shaken public confidence in the value of pension funds.

Private plans in the United Kingdom, on the other hand, are funded in much the same way as Canadian private plans, but the relationship between public and private plans is very different from that in Canada. Private plans in Great Britain can contract out of the public scheme provided the plan is at least as good as the public scheme. A very interesting aspect of this system is that the private plan members continue to contribute to the public scheme, but at a reduced rate, and the government picks up the tab for inflation protection.

I was particularly happy to get a first-hand look at pensions in Sweden because of the striking similarities in the systems of our two countries. Like us, they have a universal, residence-based pension, a compulsory earnings-related public scheme based on contributions, and also a system of private pension plans. The clearest difference is one of scale—for example, their earnings-related public plan covers a much higher level of earnings, replaces a higher percentage of pre-retirement income, and has a larger fund than the Canada Pension Plan. Another example is the fact that private plans cover 90% of workers in Sweden, which is almost double the private plan coverage in Canada.

I was also very interested in their more gradual approach to retirement. There is, in Sweden, a partial retirement program which enables workers to move from full to part-time work after age 60 with only a minimal reduction in their income. This helps to avoid the shock of the abrupt retirement which is the general practice in Canada. It can also be an advantage to both the employer and the employees in offering an alternative to sudden layoffs or costly early retirement plans.

Another thing which I found of interest in the Swedish system is the way in which they invest part of the surplus of their public pension funds in the private sector. These investments are in the hands of a board made up of representatives of employers and labour which operates at arms' length from the government. There are certain rules regulating these investments—for example, the company must be Swedish and the total amount of stock of any one company that can be held by the pension fund is limited. As well, the fund can't invest in banks or insurance companies. I was told that the pension fund is an important source of investment capital in the Swedish economy.

One thing that struck me particularly was the size of the investment made in the pension system in each of these four countries. In Germany, for example, the public plan is supported by a contribution of 18% of payroll, 9% paid by the employees and 9% by employers. Any contributions to a private plan must, of course, be added to this cost. Comparable levels of contributions apply in the other three countries. In Sweden, the public plans are financed by some 20% of payroll, with additional percentage points for the private plans, all paid entirely by the employer.

Compare this with our 3.6% contribution rate for CPP. Even taking into account the taxes paid to support OAS, and the private plan contributions (generally only a very few percentage points) paid by roughly half of our work force, our contribution to pensions is small related to these European countries.

Don't get me wrong. I am not proposing that we should adopt their levels of contribution. But I am suggesting that we can afford to make provision for adequate retirement incomes in Canada. We may be having a few problems at the moment. But pensions are a long-term matter. And consider the enormous future potential of this fortunate country to which we belong. Let us take the optimistic view. Let us not be timid in seeking solutions to the pension problems now before us. Canada can and will provide a decent living to its senior citizens.

Now, I am not suggesting that we can expect to find ready-made answers to our pension problems simply by looking at the experience of other countries, any more than we can expect to find them ready-made here at this Conference. But we can learn some very important things in both cases.

The first is that the problems we face are not insurmountable or unique. Other people have faced the same difficulties and have found ways to cope. And there is every reason to believe that Canadians can do at least as well.

Secondly, by adopting a flexible attitude in examining the ideas and experiences of others we have a greater chance of finding the solutions that are appropriate for us.

And thirdly, we have no reason to fear the future if we get to work now, to create the kind of system we will need in the years to come.

I don't wish to leave the impression that our answers lie in scrapping the system we have in place and adopting some other approach simply because it has worked well elsewhere. On the contrary, what I have seen in other countries and what I have seen right here at this Conference has convinced me that the answers can and must be found right here and must be based on the social, political and economic structures that Canadians have worked so hard to create and maintain.

If I may add one final remark, I would like to say

that this National Pensions Conference is a most important event for me, personally. Ever since I first became Minister of National Health and Welfare, one of my highest priorities has been to attempt to provide the assurance of a decent standard of living to our senior citizens. We have made some significant improvements to the Guaranteed Income Supplement program. But this Conference, I hope, will mark the beginning of a fundamental decision-making process which will ensure the achievement of that important goal—a life of comfort and dignity in retirement for all Canadians.

The Honourable Allan J. MacEachen

Closing Remarks
The Honourable Allan J. MacEachen

I want to express my thanks and the thanks of the government to all the participants for coming to the Conference. Obviously, each of you has added a particular dimension to the Conference because of your own expertise or because of a particular perspective you have brought to the deliberations.

You know very well that this Conference was convened with two main objectives in mind. The first was to raise public awareness about pensions; the second was to establish a forum in which you could express your views on how Canada's pensions should be reformed and I believe that on both these counts the Conference has been a success. We have heard a number of interesting proposals throughout the Conference. These will be very useful in addressing the fundamental decisions that lie ahead.

There has been a good deal of lively discussion and I regard that as a very healthy sign. Sometimes it can be carried to extreme but not here. A major social policy initiative, and economic policy initiative, such as pensions, requires a healthy expression of views and I would say that the views of pensioners expressed in these meetings will be as valuable as those expressed by the technical experts. Certainly they will be to me and to members of the government as we tackle this very important problem.

We have come a long way it seems to me toward developing not a full consensus but a consensus on pensions in a very short period of time. Let us remind ourselves of the sharply different views that were present only five or six years ago. In the mid-70's, we scarcely knew what was wrong with the pension system, let alone the various solutions or what was feasible. Today, I sense that there is a growing agreement on the nature of the problems and on some of the possible directions of reform. To be sure, there are still many difficult decisions to be made and certainly while I would not want to minimize them, I do see some progress.

This Conference may be regarded as the culmination of one set of events and the start of another process. On the one hand, the past few years have witnessed an extensive period of study and evaluation, both in the public domain and in the private sector. This Conference is the culmination of that effort. On the other hand, we have started the period of policy development that hopefully will lead to concrete reforms and implementation.

One conclusion that you will have reached undoubtedly is that designing an acceptable program of improvements to our pension system is a complicated process. If we have made progress towards agreement on the flaws in the present pension structure, no simple solution has yet appeared on the horizon. As for myself, I find the pension issue about as complicated as any I have had to face in government.

Admitting the complexity of the problem, however, should not deter us from attacking it with determination. The federal government has clearly and frequently stated its firm commitment to pension reform. This Conference is one step along the path to action.

I don't want to attempt to cover the ground that was covered by the excellent reports we have heard this morning nor the many interesting comments that were made at the microphone, but I would like to point to a few themes that seem to have emerged that struck me particularly. The first is of course the continuing problem of the low-income elderly, that is, those Canadians who have already retired. The OAS, GIS, and provincial top-ups are the programs designed to protect those of the elderly who have little or no private income. These are vital government programs and as you well know, the GIS has been increased twice in recent years. There appears to be widespread agreement among participants that the private pension system is not the appropriate vehicle for improving the position of the current elderly who have low incomes. This is seen as a government responsibility. Most participants seem to think that the GIS is the most appropriate way of achieving the elimination of poverty in this particular segment of the Canadian population.

The question of coverage of the employer-sponsored pension system has also received a good deal of your attention—and justifiably so. The question has always been at the heart of pension reform and is inevitably the most contentious.

Indeed, the low levels of coverage by private plans was one of the main factors lying behind the adoption of the Canada and Quebec Pension Plans 15 years ago. While the coverage of the employer-sponsored pension system has in fact increased since that time, it is not yet complete and I think that most participants at the Conference recognize this.

However, it is fair to conclude that the Conference has not been able to arrive at a consensus on how to best address the coverage problem. I believe that was evident

this morning. A number of different proposals have come forward for expansion of coverage. These range from a voluntary expansion to mandatory coverage. Even among those supporting an extension of mandatory coverage, there are differing views on whether they should be based on public or private plans. As in the case of all the discussions at this Conference, we intend in the government to examine carefully all points of view, and weigh the various problems and possible solutions against the costs associated with each alternative. In this, we will benefit from your detailed discussions on this subject. I think that we are now in a much better position to understand and appreciate all the points of view that have been expressed.

Whatever Canadians finally decide about the shape of their pension system, it is, I think, universally agreed that private pension plans will continue to play a vital role in the retirement income system. The issue seems to be the size of the role. As a result, the questions of how such plans deal with inflation, the protection of the mobile worker, and women, are equally vital issues to be addressed.

The effect of inflation on private pension plans is perhaps one of the most difficult problems that we face. Indeed, the existence of historically high rates of inflation is one of the principal elements in the changed situation which Mr. Castonguay spoke about. While my first priority is to work to reduce the rate of inflation, this is a continuing long-term effort. I think that we must also deal with the immediate problem of the harmful effect inflation can have on those with pensions from employer-sponsored pension plans and on those people in our society who are least able to protect themselves from inflation.

While there is no firm consensus on precise measures to protect pensioners, I think it is fair to say that there is now a good deal more agreement than there was a few years ago. The practice followed by some plans of increasing deferred pensions and pensions-in-pay in line with the interest earnings of the pension fund has been advocated by many within the private sector. This type of mechanism has received a good deal of attention by the Conference participants.

I also noted this morning that there is a wide measure of evolving agreement among participants at this Conference that Canadian employer-sponsored pension plans should, in general, have earlier vesting. This too is encouraging, and such a measure would in itself, be a significant step in pension reform. I also think that there is widespread agreement that better portability and locking-in provisions are desirable in a society such as ours where people are mobile.

And of course, one of the most important issues dealt with by the Conference is that of the place of women in the pension system. I believe it is possible to detect some agreement that the employer-sponsored pension system is in many respects out of date with respect to the treatment of women. The treatment of survivors is perhaps the most widely agreed upon aspect of this. The question of how to treat childbearing and child rearing years from a pension perspective has also properly attracted a good deal of your attention. And certainly I listened to comments this morning from the microphones calling for changed attitudes if pension problems relating to women are to be successfully tackled. Now these are a few comments as I attempted to focus upon your deliberations. I would like to make a few general observations in conclusion.

The first is that the federal government cannot act alone in pension reform. The provinces have many of the instruments for the reform of private pensions. They also have an important stake in public sector reforms because their concurrence is required to effect changes in the Canada Pension Plan. Meaningful pension reform obviously will require close and harmonious cooperation with the provinces. The federal government acting alone cannot give Canada a retirement system geared to suit the expectations and needs of Canadians. I am confident that the provinces share our basic objectives in this respect and will work together with us in the best interests of Canada.

Secondly, you will not be surprised that a Minister of Finance should express concern about the price tag on pension reform. Monique referred to my days as Minister of National Health and Welfare. In that period I was able to participate in the Parliament of Canada in some very major changes including the adoption of the Medical Care Act, the Guaranteed Income Supplement and the Canada Assistance Plan, all of which have stood the test of time, but indeed constitute a very significant proportion of the large budget administered by the Minister of National Health and Welfare. Little did I realize when I used to advocate with the Minister of Finance of those former days for larger expenditures and social programs that one day I would be in the role of Minister of Finance myself. And you know, having at times a somewhat theological frame of mind, I believe that I am now as Minister of Finance probably paying a public penance for those spending habits of my former years.

But I must say that though I have not lost the sensitivity to these questions which I felt in those days, I must, and do so quite deliberately, discharge equally important responsibilities as Minister of Finance. And it is not just the budgetary implications I am thinking about, or the impact upon the budgets of the provinces, but also on the impact of higher pension costs on the

competitiveness of our industry, the structure of our capital markets and the efficient growth of the economy. I believe that Mr. Claude Castonguay and other speakers were right in reminding us of these aspects.

Pension coverage, for example, will pose particular problems for small businesses. They would be called upon to face added paper work as well as finance new fringe benefits. The federal government will ensure that pension reform reflects economic as well as social objectives. While we want and will achieve I believe an improved retirement system, we also want employers in Canada to continue to provide growing job opportunities for the working age population. We also want to protect the position of future generations. I will, I assure you, be a staunch advocate of pension reform but I will be an advocate of reforms that the country can afford and those reforms will be timed carefully to match the availability of resources and the needs of the economy. I believe that that is an important reality that I face, that you face and that I faced in former years as Minister of National Health and Welfare. But I will tell Monique that the situation can be improved despite the existence of the Minister of Finance.

I finally also want to stress that some elements of the current system have not yet matured. I am referring to the need to put the financing of the Canada Pension Plan on a long-term basis and to the fact that our population is still young vis-à-vis other countries. This means that in the next 30 or 40 years there will be more elderly in our population. I am confident that we, as a country, can handle it without serious difficulty as national wealth rises and as the number of young people requiring public services declines. Nevertheless, we will have to devote additional resources to pay for the current retirement system and benefits already promised let alone any expansion of it.

The difficulties posed by the points I have just raised are neither small nor easily overcome, and they will have to be taken into account in shaping our program of pension reform. Their existence points up one very good reason why we have approached pension change with caution, perhaps even more so than some of you may feel is justified. But of equal weight and concern are the difficulties inherent in the process of reform itself—the tasks of reconciling the sometimes conflicting interests and responsibilities of the federal government, provincial governments, private employers, pensioners, the working population, the views of the women's organizations, the views of the labour organizations. All of these have to be taken into account in the process of implementing pension change.

But let me tell you as one who participated quite closely in the development of the policy of the Canada Pension Plan and the implementation of that policy and then in its passage through Parliament, that it is a very complex process. As we say, we are going to launch into major pension reform. It is an exciting concept and should obviously attract our imagination. Nevertheless let us bear in mind that it is an extremely tedious, laborious, painstaking and contentious process. But we have gone through all of that before and fortunately the system that is in place has not been under attack. Today there are views as to its future role, of course differing views, but I think it should be reasonably clear that there are reasons why we have not yet taken any decisions about the future course of action on pensions. We will be getting down to that more difficult job now that this Conference is over.

You may wonder what is next. Well, we have the Conference; we have excellent studies. During the next few weeks and months we in the government will be assessing the Conference, considering the views expressed and formulating our own approach. We will have to make decisions and put together proposals which then will have to be discussed with the provinces. As you know, the Prime Minister mentioned that those discussions could start as early as July.

And how long will the process take? Well that is very difficult to know, if only because of the complexity and multi-dimensional nature of the problem. But what I do know is that we are firmly committed to pension reform as a government and we intend to give it high priority. But in saying that I also reiterate that pension reform must fit in with the social, economic and fiscal objectives of the government, and must avoid major disruption to the economy. Indeed, it must strengthen the economy and we must regard any change in the pension system as a positive contribution for the well-being of Canadians and the well-being and the strength of our overall society.

Panel Discussions
The Future Shape of Private Sector Pensions

William Kennedy

Introductory Remarks
William Kennedy

I have the pleasure of being moderator for this afternoon's presentation, "The Future Shape of Private Sector Pensions". The discussion will include all forms of retirement income except for those who work for governments or their agencies. The alternative proposals you will hear come from all segments of the private sector—from those who receive benefits, from private plan sponsors and suppliers to the pension industry. Many of the problems outlined this morning were not contemplated when present programs were designed, negotiated or legislated. There have been substantial improvements at all levels but not enough to meet today's realities or expectations.

We need short-term solutions to help the elderly poor, and perhaps quite different solutions to improve the equity and efficiency of the overall retirement system for future generations. Only by working together as we are today will we develop a reasoned and equitable system that balances social need with economic reality.

That process is being moved ahead by a shift in attitudes towards consensus. This has become evident in a number of areas. The Canadian Pension Conference recently conducted a survey of its 1,200 members who devote a significant portion of their time to pension-related matters in all segments of the industry. The survey shows that a majority now:

- *recognize* basic pension benefits as deferred wages;
- *favour* improved spousal benefits;
- *propose* substantially earlier vesting; and
- *support* the option of continuing to work beyond the age of 65.

I think the survey report contains some very good statistics on attitudes that have changed over the past couple of years.

While there may be some agreement on these and other issues, a number of differences will remain after the Conference—differences that should continue to be analyzed, discussed and ultimately resolved. To support this ongoing process, a number of private sector associations have established an informal task force called "The Action Committee on Retirement Income Security". They are currently considering the wording of a proposed statement of fundamental principles to guide the future development of the retirement system. All groups who are interested in participating are invited to attend the next meeting of this task force which will be held on April 9 at the Royal York Hotel in Toronto. We certainly welcome your participation in this activity.

The four panels this afternoon which correspond to tomorrow's workshop topics will be followed by an objective summary. Those on the platform with me now will be replaced by others for the remaining two sessions. There will be a total of 14 presentations, many of them representing options proposed by several groups within a particular segment of the private sector. Our time is so constrained that discussion will not be possible and any questions that you have should be saved for the appropriate workshop session tomorrow. Each panelist has been asked to present alternative proposals and supporting arguments for the groups represented without criticizing the positions presented by the other speakers. This brainstorming approach hopefully will encourage positive results and conserve time to permit all positions to be presented in an equally objective manner.

The first speaker in each panel representing plan sponsors and suppliers will be given equivalent time to the other speakers who represent plan members, the special concerns of women, present retirees, and those not covered by private plans. In some cases the first panelist has opted to split his longer presentation to deliver a portion of it as a summary after the others have spoken. My introduction of each panelist will be brief to conserve their speaking time.

The first panel topic—"Coverage"—has been allocated the most time because of the number of alternatives and positions to be presented. Panelists will be dealing with persons in the private sector not covered by private plans and those who are not covered by the Canada or Quebec Pension Plans such as homemakers and the unemployed.

Coverage

John Panabaker

This is a unique occasion, a new venture in the formation of public policy in Canada. I congratulate the Government on its initiative in calling this Conference, and I am honoured to participate this afternoon.

The fact that Canadians from so many diverse backgrounds have come here to seek a path through the pension "jungle" is a hopeful sign. In this room are many different viewpoints, and many deeply held convictions, but I am certain all of us agree on at least two statements:

(1) past approaches to pensions for Canadians have been outmoded by economic and social change; and
(2) the status quo is simply unacceptable.

It is entirely appropriate that the first topic this afternoon should be coverage. What you believe about the question of coverage determines your fundamental approach to every pension-related issue. The material in your kit includes some of the statistics which led various commissions and committees to conclude that coverage is the gut issue. Not everyone agrees with that conclusion. In varying degrees, the dissenters do not believe that a significant problem remains if part-time workers, workers under 25, "opted out" workers, self-employed, and those with low incomes who already have high replacement ratios are excluded. More analysis may well be required, but the fact remains that all the Canadian commissions have asserted that coverage is a crucial problem.

Coverage is often defined as the percentage of workers who are members of a registered pension plan. But that is just a starting point, since membership means little if the expected pension fails to meet a reasonable test of adequacy.

Thus I believe coverage should be viewed in two dimensions: first, in relation to the percentage of workers who are members of pension plans; and second, in relation to the assurance that those workers will receive pensions providing a reasonable replacement ratio of pre-retirement *take-home* pay. That latter distinction is noteworthy. What matters is *spendable* income both before and after retirement, not *gross* income.

Moreover, in defining coverage in these two dimensions, we must also look at the respective roles of government, of employers, of unions, and of individuals in providing for retirement needs. I believe that there should be a fundamental role for involvement of all these sources over the range of incomes of ordinary Canadians—say those earning up to a level of 50% above the Average Industrial Wage (AIW). We need not be concerned at this Conference with the retirement incomes of corporate executives or professional athletes.

In looking at the question of coverage, we must also decide whether it is correct to focus only on pension plans. Many Canadians contribute to Registered Retirement Savings Plans (RRSP's) and Deferred Profit Sharing Plans (DPSP's); others invest in real estate with a view to creating retirement income for themselves. However, as the statistical material demonstrates, RRSP's are heavily used by professionals and by people who are already members of pension plans. I conclude that these vehicles are highly desirable for the self-employed and for those who wish to provide themselves with a supplementary source of retirement income. It is clear, however, that they do not address the problems of coverage and adequacy for those earning AIW or less.

We must also be careful to draw a distinction between the task of creating a rational, coherent pension system for future retirees, and the income problems of today's elderly Canadians. Indeed, with the possible exception of inflation protection, what we discuss this week will be oriented toward future needs, not to the needs of today's retired. Their problems are real—and the best and fairest way of helping them is through government programs like GIS, or the provincial supplements. Indeed, from my viewpoint, alleviation or prevention of poverty among the aged and among those who have not been part of the work force should be among the top priorities for expenditure of the government funds available for social programs. Our responsibility this week is to design a pension system which will make such assistance less and less necessary as the system matures.

The coverage issue boils down to a few essential questions:

(1) Does society have the right to insist that Canadians spread their incomes between working and retirement years, so that they will not become dependents of the state in future?
(2) If the answer to that question is "yes", to what extent, and in what form, should the element of compulsion be introduced to ensure that Canadian workers have adequate retirement incomes?

The answers people have given to these questions are implicit in the various proposals for pension reform

which have been made. These proposals cover an entire spectrum. Nevertheless, we can identify three basic policy positions which I'd like to describe in more detail. Let's call these approaches "renovating", "mandating", and "expanding".

The renovators argue that if higher standards are imposed on private plans with respect to vesting and inflation protection, and if workers are prevented from opting out of plans provided for them, coverage will rise over time and no further action need be taken. Renovators are not prepared to mandate the existence of a pension plan in any specific employment situation. This position is identified with such groups as Mercers and the Toronto Board of Trade.

The second group are the mandators who would require a pension or savings program to be part of every employment situation. There are two species of mandators.

The first kind of mandator would require employers to provide pension plans, but would allow a significant range of plan designs and options, as long as a set of minimum government-prescribed standards were met. This approach would involve reciprocal transfer agreements among employers and the use of special locked-in RRSP's to ensure portability in all cases. Simplified plans meeting the minimum standards could be created for small employers, groups of employers, or unions. Those supporting this approach argue that it is fairer to require *all* employers to assume a minimum level of responsibility for their employees' retirement incomes, rather than impose additional costly improvements on employers who have pension plans and let the others go scot free. This is the approach which the Canadian Life and Health Insurance Association recommends, and which I strongly endorse.

The other variant of mandating is the Provincial Universal Retirement System (PURS) approach recommended by the Ontario Royal Commission. This is centred on individual workers rather than on employers and would require retirement savings arrangements similar to RRSP's, but funded by contributions from both employers and employees. In essence, each person would be compelled to maintain a single-purpose savings account, invested as that individual might decide from time to time. Administration of these plans would be in the public sector, subject to limited "opting out" by employers. Investment decisions would remain in the private sector.

The third alternative would be enlargement of the Canada/Quebec Pension Plan. This expansionist position has the advantage of simplicity. It enlarges a plan which is already in place, rather than taking the time and trouble to create a new program. This expansionist position is strongly identified with the Canadian Labour Congress.

These, then, are the significant alternatives: renovating, mandating, or expanding. What are some of the questions we must ask ourselves and each other as we attempt to decide which of these approaches is most attractive?

First, how will the constitutional questions with respect to pensions be resolved? Will pensions continue to be primarily a provincial responsibility or will there be a greater federal presence in this area after some future redistribution of powers? Can sufficient agreement be obtained among the federal and provincial governments to permit significant reform to take place?

In passing, it might be noted that *ad hoc* settlements between Ottawa and the provinces with respect to insurance legislation have given Canadians and the insurance industry reasonable stability and uniformity of insurance law and regulation. That shows it can be done. Is there the political will to do it again in the field of pensions?

Second, can coverage be expanded sufficiently by the use of moral suasion, vesting improvements, and the tax deduction carrot, or is some form of compulsion required?

Third, this is an uncertain and rapidly changing world. How many of us, a decade ago, could accurately predict the social and economic conditions, and the political priorities of 1981? In the light of this, how confident can we be that any solution we decide upon will ultimately prove to have been the "right" solution? The answer won't be known for half a century—and that fact alone should keep us all humble.

Fourth, what are the nation's economic priorities? There can be no guarantee of a strong future for the retirement income system independent of maintaining a healthy and productive economy. There is no free lunch. All the income of the retired must come from current workers or from drawing on previous savings. We already know that the age distribution of the Canadian population is badly skewed, and that in future GNP will be under greater strain than today because of the cost of looking after so many more elderly people. Other social priorities may well come to the forefront, especially with respect to the needs of the disabled. How much of a burden do we want to pass on to our children, and to their children? More to the point—how much burden *dare* we try to shift to their shoulders?

When we ask these questions, we begin to see that there are *no* easy answers—even expanding CPP. That route poses significant problems for the economy and for future retirees. For the economy, the risks are the lack of savings and investment capital if CPP is un-

funded, and the problems which would flow from state control over the funds if it is. For the retirees, the risks would centre on the fact that all their pension eggs would be in one basket, and that basket would be subject to the political priorities of the first quarter of the 21st century—whatever those priorities might be.

It might well be argued that our governments would never go back on the promises they have made to the nation's retirees—but times and priorities can change. I would remind you of the present bitter controversy over the future of Medicare and of the way in which the priority accorded to university financing has eroded in the last decade. What might happen is that future governments would have to raise the age of CPP entitlement, or set retirement or income tests, to try to keep costs of these pension programs within acceptable bounds.

In my view, the expansionist solution will destroy the stability of the tripod on which sound pension planning should rest, by making the pension income of most Canadians entirely dependent on the unknown vagaries of the political process, decades hence.

I am utterly convinced that providing everyone's retirement income entirely through government programs is a more perilous long-term course than a diversified approach that recognizes the balance which should always be maintained among social programs, employment-related plans based on capital investment, and personal savings.

Whatever course is finally chosen, governments will be involved. Governments can choose to be suppliers of an adequate "safety net" to prevent the sad and inhumane spectacle of poverty among the aged. They can continue to provide, through such programs as CPP and QPP, a base of earnings-related retirement income, and they can act as umpires and regulators to ensure the fairness and completeness of the system. Or governments can move in and displace most private involvement in the pension system.

I believe that adequate pension coverage is an issue which must be solved. But I also believe that Canadians increasingly recognize the problems of excessive dependence on government, and prefer more choice, more flexibility and more savings. Our responsibility is to find a solution to the coverage question which recognizes both the need of the economy for capital, and the aspirations of people for a sense of independence and a personal stake in providing for their retirement.

John Panabaker is President and Chief Executive Officer of Mutual Life Assurance Company of Canada.

Mike Rygus

Before I begin, I would like to express a couple of comments. I agreed to accept the rules of participation this afternoon set out by the Chairman under protest. I have never been put in the position where I had to sit with three controversial panelists, state my case without an opportunity to get back at them, or without you getting a chance to get back at us. But be patient, tomorrow is your turn. Today we can get away with anything we say. But we shall be here tomorrow and you can get even with us.

This morning we had two principal speakers, Mrs. Shirley Carr from the Canadian Labour Congress and Mr. Claude Castonguay from the private pension industry, who set out two different views in terms of proposals for solutions to the issues that confront us at this Conference. We *do* have major differences of opinion. If we recognize this, it will be easier for us to understand the options and to see the total scope and spectrum of what we're dealing with. On the other hand, if we arrived with the idea that our differences were so narrow and blurred, I think we would wrestle with the issues for a couple of days not knowing what we had been dealing with when we left.

First of all, I think when we talk about coverage, we're talking about the very bed-rock issue of pension plans and what benefit they are to future retirees. If you're not covered, it doesn't mean a tinker's toot to you. If you are covered, it *may* mean something to you and I want to elaborate on that in a moment or two.

We were told this morning that the employer-based pension system provided only an average of 12% of total post-retirement income in 1975, and more current figures bring that figure to still less than 15%. Under the present private pension system, limited coverage is one of the primary reasons why the retirement income of most older Canadians is inadequate, but coverage is an issue which cannot be dealt with in isolation. There are at least two important issues—portability and vesting—which are closely linked with coverage. If you don't have all three, you don't have very much in the final analysis.

We also heard this morning that less than half of all working Canadians are covered by any employer-based pension plans, but even this exaggerates the coverage since vesting restrictions and lack of portability mean that many of those now covered will receive no pension whatsoever when they retire.

The benefits from many private plans, even when vested, are not sufficient on top of the public plans to raise retirees above poverty line levels. They also do not prevent a huge drop in the worker's standard of living on retirement even before inflation starts eating into the benefits. Even 100% coverage under employment-based plans would in itself be no guarantee of adequate post-retirement income. People who are not employed for all or substantial portions of their adult working life are unlikely to have significant private pension benefits, and in fact, if any CPP or QPP.

We already have the basis of universal pension systems—the OAS, the Guaranteed Income Supplement, and the Canada as well as the Quebec Pension Plans—which could deal with the coverage problem, and deal with it on a universal basis. We need to raise the Old Age Security and Guaranteed Income Supplement components to assure all retired Canadians a living income above the poverty line.

The goal of income maintenance, at least up to the Average Industrial Wage level, can best be dealt with through the Canada and Quebec Pension Plans by increasingthe benefit and contribution levels—the benefit level from 25% to 50%—and we recognize you can't do that without a corresponding increase in contribution levels.

A "child-rearing drop-out" provision would help people with limited employment records. A voluntary opt-in provision for housewives would be inequitable, and regressive, and of use only to upper income women. A proposal in that direction is what I call the "Cadillac" amendment—those who can afford to drive Cadillacs will make voluntary contributions to CPP, those who can't afford it won't, so we would be further aggravating the problems.

An expansion of the private system cannot solve the basic coverage problems. Even such private pension-oriented groups as the Canadian Life and Health Insurance Association (CLHIA) and the Ontario Royal Commission have recognized that we cannot count on voluntary private plans to provide adequate coverage.

A compulsory scheme, like the CLHIA or PURS proposals, amounts to a personal savings plan and not a pension plan, and I think we need to make that distinction very clearly at this Conference. It could lead to vast differences in pension benefits to people with the same employment and contribution records. One of our colleagues at the Canadian Labour Congress has said that even with a 2% difference in a long-term income yield, the difference between a 6% and an 8% could make a difference of almost 100% in the ultimate amount of the annuity that you would be able to buy. Consequently, with a difference of 2% yield in their investment income

on a long-term basis, you can imagine the disparities that can occur between two people working side by side in the same plant. It places all of the risks on the shoulders of the employee. It would involve huge extra record-keeping and administrative costs, as well as a substantial cost in the integration of existing employment-based plans to the new schemes. It would also provide windfall profits for the life insurance and trust companies at the expense of pensioners.

The future coverage of private sector pension plans must be in a supplementary role, and I want to underscore this here because some of our friends even in the Canadian labour movement have not clearly understood what the ramifications of the CLC pension proposal would be. What we are saying is: There is a continuing need for private sector pension plans to play a supplementary role. For example, for providing benefits above the public pension levels, for early retirement to those in their 50's and early 60's who lose their jobs indefinitely and cannot find suitable employment, for those on disability, and for meeting the requirements of the elderly in the transition period to the new public plans.

Finally, there are a couple of things that we can't afford to lose sight of in the current economic scene. First of all, many of us may not be familiar with the basic fact that there is an increasing trend to part-time employment in our society, particularly in the service industries. This is not only a Canadian phenomenon, it is a world-wide phenomenon. In the last couple of years, we have seen (and let's not kid ourselves, this is not going to walk away in the next year or two when the economy picks up a bit on this continent) plant closures by the dozens. We have seen companies in hardship situations that we would never have believed could happen five years ago. We have also seen major layoffs by the scores throughout the length and breadth of this continent. People who thought they had a pension equity, all of a sudden find that it vanishes. It isn't there anymore.

These are the things that we have to keep in mind when we talk about the prospective solutions. I want to leave one basic thought with you. We are not going to find the solutions simply by tinkering with the status quo or by putting a couple of bandaids on it. I hope that we haven't called this Conference to kid ourselves that we can camouflage a couple of things and find solutions to our basic problems. I think we've got to look for the real challenges and the real solutions. I hope that we can persuade you before the end of this Conference that those solutions are in the arena proposed by the Canadian Labour Congress.

Mike Rygus is General Vice-President, International Association of Machinists and Aerospace Workers.

John Bulloch

I am very pleased to have been given the opportunity to participate here on behalf of our 58,000 members and their 750,000 employees.

I have been asked to give you the "Small Business Perspective" on the National Pension Debate. Before I do that, however, and before I concentrate on the issue of coverage per se, I want to give you some feeling for the small and medium-sized business sector. This brief descriptive background will, I think, help you to put my remarks on technical issues into context.

Firstly, small and medium-sized business is everywhere. It exists where trust and life companies do not. It exists where lawyers and accountants do not. It is built on family and community foundations and in a social structure which is more self-sustaining and mutually supportive than much of urban society. While it tends, in general, to have a benevolent and paternalistic approach to its employees, it prizes self-reliance and initiative—the very qualities which created the enterprise in the first instance. It emphasizes freedom of choice and personal responsibility and is, always and everywhere, suspicious of regimentation.

Secondly, the small and medium enterprises sector, the SME sector, is extremely varied. It consists of businesses which are highly seasonal such as tourism or sod farming and which tend to employ a very mobile seasonal work force. It includes retail and service businesses with peak load demands (like Christmas) which necessitate part-time youth employment. On the other hand, some growing manufacturing companies have a rather more permanent work force.

Thirdly, small and medium-sized business is small. Although extremely important to our economy, medium-sized businesses in Canada are, numerically, few and far between. The Federation membership mirrors the national economy. Forty-two per cent of our members employ fewer than five people, including the owner. Eighty-five per cent of our members employ fewer than 20 people and their average size is six persons. On the other hand, the 2% of our members who employ more than 100 people, represent 28% of all SME employment.

The first principle, therefore, which must be kept firmly in view is variety. No uniform legislation, no uniform policy can adapt itself comfortably to the infinite geographic, sectoral and size specifications of small and medium-sized business. Nor can a system which creates new dependencies find any welcome among this self-reliant group of people.

Now to my assigned topic—Coverage. It has been argued persuasively that one of the major chinks in our national pension armour is inadequate coverage. Gaps in pension availability range from housewives to unprotected spouses to regularly employed but uncovered people. Some coverage inadequacies are laid at the door of businesses and, to some extent, rightly so. Vesting and portability provisions *are* inadequate. Mobile employees, more and more commonplace, *are* penalized. Questions of portability aside, many employees are not covered at all by employer-sponsored plans. It will interest you to know that coverage is quite high among our larger members. A majority of firms with more than 50 employees have private plans and almost three-quarters of those with more than 100 employees have such plans. To the extent that small business is part of the so-called "coverage problem", it is the smaller firms, especially those averaging six employees, for whom it has proven prohibitively expensive. I remind you as well that many of these firms are young. Upwards of 35% of our members have yet to cross that critical five-year mark. As these companies mature, pension plans will become more common, both because administrative systems can handle them, and because cash flow permits them. The struggle for sheer survival gives way to other concerns but, again, only if firms make it past the five-year watershed.

Staying, for the moment, with the coverage issue, this audience should be aware that only 18% of our members have *formal pension plans for themselves*. With their exclusion from the best features of so-called "executive" or "top hat" pension plans, this low coverage can be expected to continue. On the other hand, a strong majority of them use Registered Retirement Savings Plans. Many have them for spouses and would expect employees to do likewise. Inflation has, however, eroded the value of RRSP's by 40% since the contribution limits were last increased. The limits must go up and go up quickly.

Inflation is the real villain in the pension theatre. Certainly problems of portability, coverage, vesting and spousal protection would be with us and would require amelioration in the absence of inflation. But inflation deepens these underlying structural problems, widens the gulf between the working population and our retired citizens and makes a sad mockery of accumulated savings. A locked-in, vested pension benefit which might have been adequate for the terminated employee ten years ago is wholly inadequate today—only partly because of design deficiencies; mainly because of the inflation of the last decade. Whereas ten years ago, pen-

sion coverage was much smaller, it was also much less necessary. Inflation heightens pension consciousness and is causing a marked shift both in pension availability and in pension design. Here in Ottawa, the Board of Trade is experimenting with a very flexible, adaptable money-purchase pension plan for employees of small firms. Other major insurance brokers and life companies are designing new methods of reaching small business employers with simple plans. My point is really, that governments should not be too hasty in their urge to legislate new pension arrangements.

If there is reason for haste, it is mainly with regard to today's elderly. Many pension plans, including CPP, have yet to mature. As public and private plans do mature, the strain on governments to support the needy elderly will lessen. In the interim, however, there is little the private sector can do to increase pensions of today's elderly. If there are needs going unmet, then government must meet them either through GIS or through provincial plans such as GAINS in Ontario.

For its part, the private sector, including smaller businesses, has expressed a willingness and an ability to make major adjustments in the system. I know, for example, that spousal protection is high on the agenda of private sector associations and there is virtually unanimity on adjusting plans to meet this real need. Similarly, most business associations have expressed a desire and a willingness to shorten vesting periods and to provide better portability protection to employees through provision of a new form of "locked-in RRSP". With portable money-purchase plans increasingly available, inflation protection in a sense looks after itself. On a final coverage note, our members have endorsed housewives' voluntary participation in the Canada Pension Plan.

In summary, you will find much private sector support for efforts to improve the financial position of today's and tomorrow's elderly. Private systems are changing and will improve. Of course, the best guarantor of income is a job. Our members reject mandatory retirement. Further, they, with most of you, believe that the best way to protect today's youth from becoming tomorrow's needy elderly is to provide meaningful work from which they can save and invest in their own futures.

John Bulloch is President of the Canadian Federation of Independent Business.

Louise Dulude

I am sure that many of you present here today have heard it said before that women are far from being well covered by employer-sponsored pension plans. However, I would be willing to bet that few of you are really aware of the extent to which women are ignored by these programmes.

The figure you have probably heard is that less than a third of female paid workers are in employer-sponsored pension plans. A much more significant number is that out of 100 Canadian women aged 18 to 65 today, *only 15* are participating in such plans. Out of those 15, nine are working for some level of government. So only six women out of 100 are in private sector pension plans.

What do the other 85 women do? Twenty-nine have full-time paid jobs, nine work part-time, and 47 others are not in the labour force.

Why are the 29 women with paid jobs not covered? Because most of them work for small, precarious businesses which provide insecure jobs for a low pay and no fringe benefits to their non-unionized employees. (As an indication, only 27% of female paid workers were unionized in Canada in 1977 compared with 42% of the men.)

To know what is really going on, the most important thing is to avoid the trap of looking at women as if they were in static categories. Instead of taking the traditional approach, which is to look at 1) women employed full-time in the labour force, 2) women who work part-time, or 3) homemakers, we must instead understand the problems of typical Canadian women who get a paid job for perhaps eight to ten years, then drop out to take care of young children, and then either re-enter the labour force full-time, or take a part-time job, or else decide or are forced for whatever reason to stay home on a permanent basis.

Looking at things this way, it is very clear that the pension coverage problem of women would not be solved by measures such as mandatory employer-sponsored pensions. For one thing, this would still not produce adequate pensions for women because their years of contribution would still be drastically reduced. For another, most low-income or part-time female earners who are presently excluded, along with many of their small employers, could not afford the unsubsidized contributions that would be required under fully-funded mandatory private pension plans.

Considering these and other factors, such as the inability of the private pension system to provide portable and indexed benefits, I have come to the conclusion that the only efficient way of providing good coverage for women is under the Canada/Quebec Pension Plan.

An expanded C/QPP, with a higher basic exemption to help low-income workers, with a child-care drop-out period to give uninterrupted pension protection during the years spent at home with young children, and, as I will develop later this afternoon, with a fair system of participation by homemakers who do not return to the labour force (and I don't mean voluntary contributions by housewives) is the only way to give adequate pension coverage to Canadian women.

Some will object that housewives are already covered through survivors' pensions derived from their husbands. My answer is that one marriage in three will soon end in divorce, so we must quickly seize every opportunity to give women personal pensions and get away completely from the principle of dependency. Otherwise, we will increasingly create situations where two or three needy widows are fighting over the same widow's pension.

Others have also taken me to task for recommending that the work of homemakers be recognized in the C/QPP. According to them, such coverage is unnecessary because most women will soon be in the labour force all their lives anyway. To support their views, they point to studies which estimate that as many as 70% of women will hold paid jobs by the year 2000.

Having looked at these statistics, I must say that I am quite skeptical. How much weight are we to give to these economists' predictions for the year 2000 when they can't even tell us what the inflation rate will be next year?

In any case, if it were true that 70% of adult women will be in the labour force by the year 2000, it would still leave well over a million Canadian women between the ages of 25 and 65 working full-time in their homes. I would like to see people's reaction if someone suggested that a male occupational group of that size be left out of our pension schemes!

To recapitulate, I believe that all Canadian women who work and that includes women who are at home taking care of young children or keeping house for their husbands, should get personal coverage under our work-related pension plans. Having given serious consideration to the possibility of achieving this goal through private pension plans, I have come to the conclusion that these plans are not and will never be able to do the job.

Louise Dulude is a lawyer and researcher who authored the report, "Pension Reform with Women in Mind" for the Canadian Advisory Council on the Status of Women.

John Panabaker

I think it is worth pointing out that all of the speakers this afternoon have agreed that coverage is a major problem. Despite the comments of my friend, Mike Rygus, there are a good many commonalities between us. We both agree that coverage in terms of mere numbers of people in plans is not correct and that you have to take into account adequacy, which means taking into account vesting and portability.

Mike says that he would like to see private plans in a supplementary role. Really, the question there is one of degree—the point at which you define what is supplementary and what is basic. Mike also made the point, as did Mme Dulude, that part-time employment is a growing factor in the economy and particularly affects the work patterns of women. I think that is correct and I think it's worth noting that whatever we do in the next few days—whatever recommendations we come up with—are related to that and must be dealt with.

Beyond that, one more point. Mike Rygus pointed out that a mandatory plan or expansion of the private sector plans would lead to windfall profits for life insurance companies or trust companies. Well, I don't know. I think that one of the things we could very well consider here is that some of the pension plans in such a system could be run by the unions. As long as the rules are written in the same way for everyone, the more the merrier; the more competition the better.

In addition, of course, we see the basic differences of view ranging from Mr. Bulloch on one side with his comments about RRSP's—the basic psychological point of view of the small businessman who is himself independent and who provides through his own business effort for his own security and expects his employees to do virtually the same thing—through the concerns that Mr. Rygus and Mme Dulude have for women and for workers in changing businesses. And the real issue which I think we all have to face—it's a philosophical and ideological issue—is the point at which we expect people to become themselves involved in their pension system or to what extent we expect society to provide that service for them. You saw a variety of approaches in my indications of the positions taken in the pension industry and in the private sector. They themselves recognize a difference in emphasis on the degree of individual choice and compulsion. Really, when it comes down to the fine point, the issue of coverage is related strictly to that—to what extent do we involve people themselves in providing part of the tripod on which their own retirement income should be based?

Women and Pensions

The Honourable William Hamilton

The traditional approach to pension philosophy has treated women not as a major and continuing element of the total working population, but as a sort of secondary group, dependent on others, and with little permanent attachment to the work force. As I see it, and listening to everything that has been said here, *that era is past.* Women are approaching half of our Canadian working population; most will continue to work until children arrive, and a large portion are going to return to the work force after or before their children enter school. It's a new ball game.

It is going to require some radical rethinking of pension approaches, since most of the present programs were probably devised by male chauvinists of a previous generation.

But let us separate the proper concerns of women and improvements in pension programs that we require for them from other matters which simply are not related to these issues.

The first is that, while we must be concerned with the elderly poor and those who will enter this stage during the next decade or more, this is not going to be immediately resolved by any pension magic. It is a national problem with which Canadians have got to deal; it requires a targeted approach by government until eventually, well down the road, sounder and more realistic pension approaches are developed and the magic of compound interest produces the results that we know they can eventually produce. Secondly, pensions are related to wage levels; so the level of women's pensions, using the same formula as for men, will be below the male levels until we attack the totally *separate* problem of disparities in male and female incomes, which is another problem that faces us, but not in the pension field.

Now let us turn to the more positive side. As the Ontario Royal Commission report states:

> *"The greatly increased participation of women in the work force points to a future in which the emphasis will be turned from women as dependents to women as workers. Women as workers will earn retirement income in the form of pensions in their own right. There will perhaps be a long period of readjustment in which many women will continue in the life pattern applicable to today's elderly women, while others who are able to have a worklife of full employment may enjoy a reasonable level of income in retirement. Women who work part-time or only after their child-rearing years will fall somewhere between the two extremes."*

What the Commission is saying is this: We'd better recognize the difference in these various groups as we plan for the future and provide a framework of pension planning for women as individual, independent human beings who have some different needs from men.

In the report he authored in 1978 titled, *Women and Pensions*, my fellow panelist, Kevin Collins, concurred when he said:

> *". . . even with improvements in wage-related pension policy and work policy, many women will not be in a position to benefit, for such policies take time to enact and to be fully implemented. Such improvements will be of no use to unattached women over 65, the majority of whom are living in poverty now . . . "*

While I know the next points are debatable, let me set out three fundamental principles that I feel should underlie pension planning for industry for both men and women:

(1) Each generation should pay for its own pensions and for that reason, I think, business generally opposes an expansion of the current Canada Pension Plan.

(2) Changes to the present system should be designed to provide the contributors—the workers and their employers—with the best possible investment return. This objective can best be accomplished if all contributions are invested and managed in the private sector.

(3) Pension reform, and you've heard this ad nauseum, will *not* solve the problem of inflation. Elderly Canadians should continue to have their CPP and OAS benefits protected by a form of indexation, but this should not be extended by legislation to other pension plans.

Let's look for a moment at the short-term, immediate problem of poverty among elderly women. It is clear that the current plight of Canada's elderly, many of whom are women, will not be improved by pension reform, but by addressing the problem of poverty. These people should be assisted by changes in the GIS and this assistance should continue until such time as the results of pension reform become fully effective. (And we know that we are looking at a couple of decades here and there is nothing we can do to shorten that period.) This would target help to those whose need is greatest, rather than pour out greatly increased sums through OAS, in many cases where it is not needed.

There are two other areas which will work to help women now in the elderly age group or nearing that group and, as well, can be incorporated into the longer term reforms that we are examining. I am referring to benefits for spouses and division of contributions upon marriage breakdown. Both of these provisions would help both men and women, but it is obvious that given our current demographics and lifestyles, women will be the main beneficiaries of advances in this area. Many private sector organizations are suggesting that universal plans should provide an automatic survivor benefit of at least 60% unless the spouse opts out. As the Ontario Royal Commission noted, the concept of survivor benefits, and of dependency because of marital status, is slowly changing and survivor benefits may ultimately be phased out except as an option. For today's elderly, that certainly is not a solution. We must find other solutions.

The Canada Pension Plan currently provides for a division of entitlement on marriage breakdown and that should be extended to other pension plans. It is becoming an accepted procedure that assets earned or acquired during marriage should be divided equally if that marriage fails. Pension credits are assets and as such should be divided equally upon a divorce.

Moving directly to the long-term aspect of the issue, I think it is a fairly general belief in business—or maybe I'm only the token Westerner in my part of the world—that by adopting a mandatory retirement plan similar in concept—not necessarily buying PURS (*Provincial Universal Retirement System*)—but similar in concept to the PURS recommendation by the Ontario Royal Commission, many of the particular problems that confront women in relation to pension plans will be resolved. We concur with the idea. We recognize it would pose problems for small business. We think those have to be given very special consideration in any plan design. Immediate vesting is recommended in the PURS plan. Consideration of a drop-out provision for child-rearing years has been given close study and is recommended. These things would go a long way to answering those very important questions. The portability of the plan copes with the traditional job mobility of women—no long-term attachment to their job—not as long-term as men in many cases.

And then a highly controversial element. Adopting unisex tables for calculating the pension benefits, while based on public policy, I guess, as a concept, rather than actuarial, technical grounds (it seems to drive the actuaries up the wall), but when it's related to mandated programs—those which everybody must participate in—it would improve the lot of women whose monthly benefits would otherwise, simply because they live longer, be lower than men's. On the other hand, it would take away something from the rest of us. It's a social question. Are we yet ready to face that there is equality in our community even if it does cause the actuaries a lot of problems. It is a difficult problem. I think it's got to be given careful consideration because it is in use in a few private plans now and certainly it deserves further exploration.

To sum up, pensions are deferred income. In order to qualify, you've got to work (and many women today are working), but it is going to be a generation before women have the same length of attachment to the work force as men and it is going to take them longer to change the attitude of our society towards women as dependents rather than as independents (although I think we're moving in that direction, thank God). It is therefore clear that any pension reform must take into account the very special needs of women in this transition and that such reforms should be initiated not five years, not ten years from now, but very very soon because the full benefits are not going to emerge until two or three decades hence and in the meantime, we must have transitional methods.

The Honourable William Hamilton is President and Chief Executive Officer of the Employers' Council of British Columbia.

Kevin Collins

Let me begin directly by outlining a short list of changes in the private pensions system that I believe would have significant beneficial impacts for women.

First, the question of discrimination. Fortunately, human rights and employment standards legislation has virtually eliminated such direct discriminatory practices as different retirement ages for men and women, different number of "years of service" for eligibility to join a pension plan, and so forth. But a continuing issue, which Mr. Hamilton also referred to, is the phenomenon of different benefit rates for women and men under money-purchase plans based on differences in group life average expectancy. Legislation should eliminate the practice by requiring the use of unisex mortality tables. While this issue is open to infinite technical obfuscation, ultimately it reduces to a simple matter of social justice: an individual man and individual woman should receive the same monthly benefit when they have made equal contributions to the same plan over the same period of time.

Second, the question of survivor's benefits. In the long run, when we're all dead, it would be desirable that the very concept of survivor's benefits—with its dependency implications—would disappear. But the reality in the foreseeable future is that these so-called "reversionary" pensions will form an important part of our total pension system. Private plans should pay benefits based on two lives with a survivor's benefit at a minimum 60% rate—capable of being waived by the spouse. It should go without saying that the spouse should have a full and independent right to disclosure of the details on the benefit that is at stake.

Third, the question of pensions as property. Family law legislation should regard pensions as family assets. To my knowledge, only B.C. at the present time explicitly includes pensions as part of the definition of family assets. While it may be difficult or impossible to literally divide a pension on marriage breakdown, property settlements should nevertheless be made on the basis of valuating pension assets.

Fourthly, the need to adjust for the different work patterns of women. For the foreseeable future, women will have a more discontinuous labour force participation pattern than men—both in and out of the labour force and within the labour force, between full- and part-time employment. While I believe public pension programs have the primary responsibility for compensating for the penalties in terms of pension entitlements resulting from this, the private system can go some way. An important change in this context would be to alter pension benefits legislation to require private plans to extend eligibility for membership to part-time workers on the same basis as full-time workers.

While not wanting to damn them with faint praise, these recommendations—while important—would not result in a drastically improved deal for women out of the pension system. In the case of the survivor option for death after retirement, for example, there would be a fairly high degree of opting-out by spouses simply because without other improvements in private pensions, couples together would be compelled to choose immediate over future benefits. Similarly, the use of unisex mortality tables is a marginal rather than quantum-leap improvement, given the fact that membership in money-purchase plans currently accounts for only 5% of pension plan membership, and given that equalized annuity rates would go only a short way to compensate for basic wage differentials between men and women which carry over into unequal pension outcomes.

In my view, then, the most significant avenues for improving pension outcomes for women lie elsewhere. Obviously, in a total system that is significantly wage-related, a key avenue is through a better deal for women in the world of work.

But even with respect to the pension system directly, women have a particularly big stake in the key issues being dealt with by other panels: coverage, indexation, vesting and portability. For example, given current inadequate vesting conditions and virtually non-existent portability arrangements, women as a group subsidize in very significant amounts the private pension system as a result of their higher job turnover rates. Again, women are particularly disadvantaged on the coverage issue. Only about one-fifth of women working in the private sector are covered by an employer-sponsored pension, compared to half of men. But even this exaggerates the relative position of women. If, as is more likely for women, employee contributions are simply returned on termination of employment, it is misleading to call this "pension coverage". It really amounts to being in a forced savings plan at low or nil rate of interest.

I am not going to outline proposals for improving the system along these lines. That is more directly the subject matter of other panels. But for pensioners generally, and women in particular, it is our view that only the expansion of the CPP can deliver on all fronts simultaneously. Reliance on the private plan route as the primary avenue for addressing these issues would represent, to use Samuel Johnson's phrase, "the conquest

of hope over experience".

A simple expansion of the CPP is not enough either. Adjustments should be made that offset to a greater degree than currently the penalties women incur in wage-related plans. This is the social side of social insurance. The most immediate step in this category would be the implementation of the so-called "drop-out" provision for parents caring for children up to age seven. Hopefully, this Conference can add pressure on the Ontario Government to stop using their veto position on this issue as a pawn in a bigger game.

Finally, the most immediate and urgent need in the pension system is to address the problem of poverty among the current elderly, most of whom are women. Whether looked at through cold statistics, or through actually watching pennies being counted at the supermarket, this is a national disgrace. Despite personal philosophical heartburn about going the selective route, the only practical way to deal with this problem quickly and on a national basis is through the GIS program, given the current political environment, and I know that's a euphemism. In my study on "Women and Pensions" three years ago, I recommended an increase of approximately $100 in the GIS maximum. Since that time, it has been increased by a total of $55. But it is not good enough to throw someone drowning 100 feet offshore a 55-foot rope and tell them you are meeting them more than half-way. There is plenty of flexibility to go the rest of the way under GIS without widening the federal deficit. Even though I don't accept that as a constraint personally, it seems to be a widespread phobia. Simply for illustrative purposes, the elimination of one "tax expenditure"—the $1,000 interest and dividend deduction—would provide sufficient money for GIS expansion. At worst, this would be neutral in economic terms, but in social terms we would get a significant redirection of money from the best-off to the worst-off. My appeal then is directed as much to Minister MacEachen as to Minister Bégin.

Kevin Collins is Senior Economist in the Research and Legislation Department of the Canadian Labour Congress.

Louise Dulude

I was happy to hear that a special panel on the pension problems of women would be held today. On the other hand, I find it ironic that such a panel is necessary since almost 60% of elderly Canadians are women.

If women acquire greater influence and if, as we expect, they continue to form an increasingly larger proportion of the elderly Canadian population, it is not inconceivable that sometime in the future a pensions conference could be organized in which one panel in four would deal with the particular problems of men.

Before getting down to specifics, I think it would be useful to do a very fast review of the development of pensions in Canada from the point of view of women.

To start with, pensions are much younger than most people realize. No national pension system existed in Canada before 1937, and from then until 1951 it consisted only of minuscule benefits for destitute elderly people who were aged 70 and over.

The main beneficiaries of these payments were women, (1) because they had less chance to earn money and put it away, and (2) because they lived longer.

In 1951, the federal government introduced the universal old age pension for people over the age of 70, whatever their income, and also started contributing towards benefits for the elderly poor aged 65 to 70. Men benefitted most from the universal pension (because many women were already getting it), and women were the prime beneficiaries of the new income-tested benefits for the younger group.

We then come to 1966, which as you know was the biggest year for pension changes in Canada. The eligibility age for the universal pension was lowered to 65 (which benefitted mainly men); a $30 a month Guaranteed Income Supplement for the elderly poor was introduced (benefitting mostly women); and most important, the Canada/Quebec Pension Plan came into being.

The C/QPP gave retirement pensions to *paid* workers—who were and are mainly men. It also gave disability benefits based on earnings—again mostly to men.

The only benefit designed for women was the widow's pension, which amounted to 60% of the husband's pension and was given only if the widow fulfilled certain conditions which pretty much guaranteed that she was a dependent (for example, she lost—and still loses—the pension on remarriage).

Looking at the C/QPP from the point of view of its relative effect on the incomes of men and women, we see that its design was a disaster for women.

By leaving out the work women do in the home, by penalizing mothers for the years they drop out of the labour force to take care of young children, and by basing pensions on the level of people's earnings, the C/QPP could not fail to vastly increase the gap between the future incomes of elderly women and men.

This is in fact what happened in the following years. If we look at the changes in the incomes of the elderly in the last 15 years, we see that the incomes of male pensioners increased by $3 for every additional $2 that went to elderly women.

And the situation would have been much worse without increases in the Guaranteed Income Supplement, which went from $30 a month in 1966 to $209 a month today.

What transpires from all this is that since 1966 Canada has in fact developed two parallel and unequal pension systems: one based on *charity*, which pays welfare-like benefits to most elderly women; and one based on *earned rights* (including pensions from the C/QPP and private plans), which gives much higher benefits to most men.

The great irony is that Canadian women work just as hard if not harder than the men. In fact, most women nowadays have two full-time jobs, an underpaid one in the labour market and an unpaid one at home. Their reward for all this work is pensions that are about half as high as those of men.

Now, is this what you would call a *just* pension system?

You may well ask me, "What has all this to do with private pensions?" To which I will answer: "Precisely. Not very much at all. There is not very much that the private pension system can do to substantially improve the benefits of elderly women."

Private pensions cannot give women the coverage they lack for the years they spend—and will no doubt continue for a long time to spend—outside the labour market.

Private pensions cannot provide women with the fully-indexed pensions that are even more essential to them than to men because they live longer.

And private pensions cannot, through measures such as the basic exemption used in the C/QPP, give the modest assistance which low-income workers—who are mainly women—need to provide themselves with minimally decent work-related pensions.

The only program that can do all that—very well and without complications—is the C/QPP.

C/QPP credits are vested immediately, are fully

portable and fully indexed. Its benefits can and should be expanded to provide all workers whose incomes are at or below the average wage with a decent replacement rate (I would say 50% of their previous earnings).

In addition, this amplified C/QPP could and should be adjusted to recognize the family responsibilities that women are still assuming and will continue to assume for a long time for all of us. This could be done by:

(1) implementing the child-care drop-out period and extending it to include the years spent at home taking care of disabled family members who would otherwise have to be institutionalized;

(2) allowing homemakers who do not re-enter the labour force, but who are also taking care of preschool children or disabled family members, to participate at no cost in the C/QPP on the basis of a hypothetical income equal to half the average industrial wage. This would recognize that the work these women do is of value to society as a whole;

(3) allowing other homemakers, who are typically older women whose children have left home, to participate in the C/QPP on the basis of the same hypothetical income, but in this case with full contributions payable by husbands, who are the main beneficiaries of these women's services. This could be achieved simply by making the payment of these contributions a required condition for claiming the tax exemption for a dependent spouse; and

(4) equalizing spouses' C/QPP credits automatically at the time of a divorce, on death, or when the youngest of them reaches retirement age. This would recognize that wives contribute in an equal, if different, way to the marriage partnership.

Returning to private pensions, the only useful role they could play, as far as women are concerned, is to supplement the retirement benefits of those with above-average incomes. To do even that much adequately, they will have to be completely transformed to give:

(1) quick-vesting pension credits—even age 25 is late for women because many have dropped out of the labour force by then;

(2) indexing of deferred pension values and retirement benefits by using the inflationary interest earned on pension funds;

(3) unisex mortality tables to be used in calculating annuities for money-purchase plans and RRSP's;

(4) mandatory joint and survivor pensions giving at least 50% to the surviving spouse, to be waived only if both spouses agree; and

(5) automatic splitting of private pension credits and RRSP's between the spouses on divorce.

If all these proposals were implemented, along with others which are contained in my report, Canadian women could at last aspire to adequate and fair pensions.

In the meantime, let us not forget that thanks to the government's misplaced budgetary priorities, the majority of elderly women in this country are still denied pensions even equal to the poverty line.

See Page 62 for biographical note.

The Honourable William Hamilton

The thing which has impressed me from the time I sat down and listened to the speakers this morning—Mrs. Shirley Carr and Mr. Castonguay, and the panels this afternoon—is the consistency of concern which is shared by all the members. It was apparent again in the panel on women this afternoon. Essentially all we're really talking about are mechanisms. In the case of the panels on women, I think perhaps Madame Dulude underlined it better than anyone. There is nothing, or very little, that the private pension plan can do to deal with the special problems of that particular group in our society. We must look then to other social measures, other government measures.

What we are facing here today, at least until this moment, is not the question of *what* shall we do. That, it seems to me, has been very largely agreed on. But *how* shall we do it. And I find that this same difference of opinion and challenge remaining to be resolved, rests with us who have looked at women in pensions, as it did with just about everybody else who has graced this platform and given us the benefit of their ideas.

Portability, Vesting and Locking-In
Charles Perrault

I am pleased to have the opportunity to present the employers' point of view on vesting and portability of pension benefits. Certainly, the most difficult part for me is mastering the hermetic jargon of pension plan specialists, first of all, to enable myself to understand, and then to make myself fairly understandable to you.

This Conference is addressing the issues relating to the protection of employees covered by private pension plans. It is very obvious that protection to employees with such coverage is of little importance if it is lost when they change jobs. It becomes, therefore, a question of vesting; that is, assigning an employee certain funds earned while employed, to which he is entitled when he leaves the job. This vesting procedure is an integral part of all retirement plans.

The basic philosophy underlying a retirement plan determines the type of vesting and portability the plan provides; if, on the one hand, it is held that a retirement plan is a reward for long and faithful service, it would be logical that a pension should only be obtainable after such service. On the other hand, however, if the plan is viewed as a form of deferred income, almost immediate vesting should be possible. The latter is the more common tendency among an increasing number of employers.

If there is fairly general agreement among employers with respect to more immediate vesting, they are not so unanimous when it comes to determining the degree to which the value of this income should be maintained in an inflationary climate. For pension benefits to maintain their value, they must either be indexed in some way, with additional contributions from time to time for this purpose, or a larger pension fund must be created to generate higher investment income in order to ensure a certain re-evaluation of the income. All additional costs must be included in the general compensation package and, in the long run, represent the workers' preference for deferred rather than immediate wages and salaries. The former option was not well received by those responsible for private plans. The second option would be more readily acceptable because its costs are much more predictable.

As for portability among the many private plans in Canada, much has been done to find formulas, although for the moment only a few groups, such as the civil service and large insurance companies, have succeeded. Portability also exists in certain specific cases where employees have a similar pension plan, such as the forestry industry in British Columbia and the construction industry in Quebec. The question of cost-sharing among successive employers remains a troublesome area for pension plan experts.

One problem with immediate or almost immediate vesting is that the younger a person is at the time he or she leaves work, the lower the retirement benefit payable. In fact, if the plan has an equal employee contribution, it is conceivable that the employee would gain nothing from complete vesting since his pension would have been paid entirely through his own contributions.

We are, therefore, leaning toward having the employee's contribution buy only a portion of pension credits, and a fairly common suggestion is that the employee and the employer should share the cost of this protection, as is required by Saskatchewan law. Once more, the additional cost to the employer must be part of the compensation package. This can be more easily understood if I give an example.

Let us say an employee aged 35 stops work after five years of service. Under a final average plan, he could, at 65, be entitled to a benefit of 5 × 1.5% × $15,000, or $1,125 per year. The actual value of the deferred benefit at age 35, with a bank rate of 7%, would be $1,025. The employee's accumulated contributions plus reasonable interest (higher than the usual nominal rate, let's say more or less what he would get on a savings account in a bank), could easily amount to $3,500. The deferred pension would therefore include 50% of the $1,025, payable by the employer (if the equal-share option is taken), and 50% of the $1,025, or $512.50, payable by the employee. When leaving, the employee would therefore be entitled to a reimbursement of $3,500, minus $512.50, which is $2,987.50. Such an option also involves an additional cost and is thus one choice among many types of benefits.

Immediate or almost immediate vesting can result in very small pension income for those workers who leave their jobs, given that turnover is higher during earlier years of service. Obviously, it is inefficient to have a large number of such small commitments administered. To reimburse these small amounts in cash is a possible solution, but this seems to go against the principle of vesting. On the other hand, when vesting is made to vary according to age and seniority, this prob-

lem can be avoided, but we would be moving away from the principle that a pension plan is deferred compensation.

Now I am going to discuss locked-in benefits. Is an employee who leaves work entitled to earned benefits in cash at the time he leaves, or must these benefits be frozen and only paid to the worker at the normal retirement age? When the funds are contributed by the employer, it is generally agreed that the money should be locked in until retirement. On the other hand, there is less agreement as to the employee's right to renounce all claims to the employer's share in order to obtain his own contributions in cash. This, really, is the paternalistic attitude found in many government policies. The plan would then protect a short-sighted employee, perhaps against his wishes. Surveys among businesses indicate that they are generally in favour of earlier vesting and are attempting to find a solution to the inflation and portability problems. Even without legislative coercion, private plans have frequently gone beyond minimum standards (45 years of age and 10 years of service), required in most jurisdictions. According to Statistics Canada, nearly 65% of all employees covered by such plans can obtain benefits after 10 years of service or less, regardless of their age. Many organizations encompassing various businesses, such as the Board of Trade of Metropolitan Toronto, the Canadian Chamber of Commerce, the CLIA, and the Canadian Retirement Institute, recommend earlier vesting.

As for the locking-in of benefits, 54% of respondents included in a survey by the Canadian Retirement Institute support the idea that the acquired annuities should be locked in at approximately age 36, and after about six years of service.

As for protection against inflation, about 53% of respondents are in favour of some type of indexation of deferred incomes before retirement, and 72% favour such an arrangement after retirement.

To sum up, then, Mr. Chairman, there seems to be general agreement in the private sector that retirement plans should be geared toward earlier vesting and perhaps also toward some type of protection against inflation.

Full vesting after five years of service should perhaps also be the immediate target of all private plans. In addition:

(1) the employer's contribution should represent a substantial part of the cost of deferred income;
(2) this part, as well as the matching contribution by the employee, should be locked in until retirement; and, finally,
(3) periodic adjustments granted to pensioners to protect them against the loss of purchasing power would affect the deferred benefits in cases where such deferred benefits were transferred to the employee's RRSP.

The cost of changes (1) and (2) above for retirement plans would vary according to vesting conditions, the demographic distribution of plan members, the turnover rate, etc. They should not be high for most of the plans, probably falling somewhere between 10% and 20% of existing yearly contributions. I am not going to repeat the comments I have already made concerning the total package from which such amounts are to be taken.

As for the "partial or total" indexation suggested in (3), I have not calculated the figures. If we go back to the RRSP, it would be possible to predetermine the additional cost borne by the plan itself. This transfer of deferred income to an individual's RRSP would help solve to a great extent portability and inflation problems. I would remind you that the RRSP can easily be adapted to the special problems of women who must temporarily interrupt their work careers. For evaluation purposes, an interest rate assumption could be used to set benefit levels in these cases. This interest rate could be set from time to time by a recognized independent organization such as the Canadian Institute of Actuaries.

The yield of the RRSP based on a higher rate than the evaluation would provide some protection against the decreasing purchasing power of the benefits.

If the amounts to be dealt with in this way were too low, this could bring about a problem. For instance, individual sums of money under $500 would perhaps be insufficient to create a locked-in RRSP; but an existing RRSP could accommodate such a sum.

- The mechanism for investment of such funds is ready and proven.
- The funds would remain in the private sector for reinvestment.
- The profits of such a plan provide protection against inflation (many mutual funds that qualify as RRSP's report yearly profits of more than 20% for the last five years, and more than 12% for the last ten).
- Those responsible for plans thus avoid the administrative problems inherent in many small deferred incomes kept on their books for years, and the employee himself consolidates the funds of his successive participation in several plans.

Charles Perrault is President of Perconsult Ltd.

Herbert Hanmer

It is good to have the opportunity to speak on behalf of senior citizens and to deal with portability, vesting and locking-in from a senior citizen's point of view. I will not be dealing with inflation. A colleague, Mr. Delisle from Quebec City, will be dealing with that in the next panel.

There is a built-in bias on the part of many retired persons against private sector pension plans because of their inadequacies. Many have experienced the traumatic impact of sharply-reduced incomes after retirement. Many more have no pension but the government pensions.

Without drastic action it will not improve for over two million workers in the private sector who in 1976 had no employer-sponsored plan at all.

Two basic questions have to be tackled:

(1) Can portability of pensions, vesting and locking-in be improved to help those already in pension plans?
(2) Is it possible through portability or earlier vesting to extend coverage to the two million workers who have no private pension protection? This, ladies and gentlemen, is the $64,000 question.

Let us look at *vesting*. At present there is no universal minimum vesting standard in Canada. The requirement of 45 years of age with 10 years' service applies in the federal jurisdiction and in five provinces. In Manitoba they call for 10 years' service. Saskatchewan is introducing a new arrangement on the first of July.

Sixty-five percent of plan members have vesting arrangements which are better than the minimum. Compared with most European countries, however, our standards are not satisfactory—France, for example, vests immediately, while the Netherlands call for one year's plan membership only.

Obviously, therefore, new minimum vesting standards should be the objective in any new plan; whether "full and immediate" vesting, or 30 years and two, or a combination of age and service equalling 35 as proposed in Quebec's "Cofirentes" Report, or some other level is difficult to determine. Perhaps five years' service at age 25 would represent a reasonable compromise. One thing is certain—earlier vesting must be an essential ingredient of any reform.

Desirable as early vesting may appear in terms of providing for future retirement, it is not necessarily attractive to all members of the work force, particularly those who move from job to job. What benefit is there to me, they say, from deferred pensions 20 or 30 years hence especially if they are not fully protected against inflation?

Consequently earlier vesting or locking-in must be accompanied by proper protection against loss due to inflation.

True *portability* of employer-sponsored plans in the private sector is much more difficult to achieve than is vesting, though early vesting is in a sense an improvement in portability.

However, portability normally refers to arrangements for the transfer of pension credits so that an employee's pensionable service with a previous employer can be included in calculating the pension to be provided by a subsequent one.

In the public sector, such portability in the transfer of funds is pretty common. In the private sector, this is far from the case.

There are exceptions, such as the Canadian Life Insurance Association, which is developing an arrangement for transferring service credits between different plans and companies in the insurance industry, though I guess even it has a long way to go yet. I understand too that there are some multi-employer plans sometimes union initiated. This is all good.

However, it is very difficult to visualize a portability plan which would work universally in the private sector. Perhaps a government-sponsored plan is the only answer.

To return to the second of my basic questions, which was: "Is it possible to redesign private sector pensions to provide coverage for the first time to the two million-plus workers who have no private protection whatsoever at present?"

Many of these workers are employed in small- or medium-sized enterprises. They are often in the service industries, in voluntary agencies, and in a variety of other fields. Frequently they are not unionized. A large number are women. And we should not forget the self-employed.

Frequently these members of the work force do not qualify for more than fractional benefits under the Canada Pension Plan because of low pay or irregular employment patterns.

The Guaranteed Income Supplement and the provincial top-up programs, such as Ontario's GAINS, are the saving grace for the majority of these people in retirement. In the case of unattached individuals, even these benefits do not provide an income which is above the poverty line.

Many retired people have serious doubts that it will prove possible to devise a private voluntary employer-sponsored plan which would secure the backing of small- and medium-sized enterprises and bring into the

system those two million or more now without coverage.

The alternative is a public pension plan related to earnings. We have one already—the Canada/Quebec Pension Plan. It is the logical vehicle to provide for reasonable income replacement in retirement.

The Ontario Royal Commission on Pensions has proposed a provincial public plan in addition to the CPP/QPP. We have doubts that such a plan—unless it paralleled the CPP as does the QPP—is the best solution. This is not to say that the Canada Pension Plan does not require some overhauling.

Steps therefore should be taken:

(1) to extend the Canada Pension Plan to provide 45% of average wages and salaries on retirement;

(2) to amend appropriate legislation to provide for earlier vesting and improved portability in private pension plans; and

(3) to compensate for the failure of past pension planning—the Guaranteed Income Supplement must be increased substantially. In this way, those who through no fault of their own have no private sector pensions can have incomes above poverty levels.

Herbert Hanmer is Secretary of the Legion Seniors Program, Royal Canadian Legion and member of the Ottawa-Carleton Council on Aging.

Vincent Dagenais

When discussing the rather complex issues of portability and vesting, we must not lose sight of the main object of the Conference, which is to find means to guarantee a decent income to the elderly, and more specifically, to ensure the maintenance of their previous earnings or at least to reach a desirable target of 70% or 75% of their net previous earnings. This issue is the main object of this Conference.

One of the problems which arises in achieving this objective is unquestionably related to the fact that workers regularly change jobs. It is now common to go through three, four or five employers during one's working life. A second factor which is becoming increasingly significant is the so-called "precarious" job; that is, part-time, casual or supernumerary jobs. With respect to these problems, what can be expected from private pension plans? First, we must examine the nature of private pension plans and what they stand for.

These plans are, in actual fact, accumulated savings which are contributed partly, of course, by wage earners, and partly by employers, in the form of deferred salaries. This, in my opinion, leads us to a first conclusion. If they really are accumulated savings made up of revenues generated from contributions by the employer and the emloyee, there should be no doubt as to the employee's right to the immediate vesting of these contributions. Strictly speaking, it is even surprising that we should still be talking about portability and vesting problems. It seems to me that by their very nature, private pension plans are accumulated savings plans and must be fully portable and immediately available to all beneficiaries.

Secondly (keeping in mind the first issue, which is the objective of attaining 70 or 75% of previous earnings), it is not clear that improvements to private plans will enable that objective to be met. There are three reasons for this. The first is relatively simple and deals with the level of coverage provided by private plans (which was mentioned earlier). The second is that, even though the law now allows for full portability and for benefits to be fully and immediately vested, portability and vesting procedures are so complex that they would take a very long time to implement. The third reason is related once more to the nature of private pension plans which are accumulated savings plans. In my opinion, there is no savings system which can give us any serious guarantee against an uncertain future. When we talk about retirement, we do not mean something individual but a social phenomenon which is certain. We have retirees today. It is a certainty that people will continue to retire; what is uncertain is the future itself. There is no accumulated savings system which is a solid guarantee against the future. The only possible guarantee is the public and social assumption of responsibility for the retirement problem, just as health problems have been dealt with in the past.

When the right to retirement, that is , the very existence of the elderly, is a problem and a social right, we must be able to treat the problem in the right manner, that is, on a social basis, which is the only way we can guarantee against an uncertain future. This social basis offers us guarantees for three reasons. First of all, only public plans can be compulsory for all of the working population, which makes it possible to attain the objective of mandatory contributions. Secondly, these plans in actual fact already yield immediate, complete and continuous vesting of benefits. And thirdly, they are very fluid, portable from one employer to another, and allow for transfers, which no savings plan does. It seems important to specify at this point that the proper treatment of income problems of the elderly must involve transfers from the richest to the poorest and, since the future is uncertain, from one generation to another. To treat this question on the basis of accumulated savings is, on the one hand, to put off the problems for 25 or 30 years for the working age population and to leave those now retired high and dry and, on the other hand, to be without any guarantee for the future. The problem of retirement incomes must therefore be dealt with through public plans.

Finally, I would like to address the question of costs. Certainly, such an undertaking would be very costly. I would simply like to point out that, at present, the cost of ensuring immediate portability and vesting in public plans is nil. Extending public plan benefits will not add a cent to the present costs in terms of immediate portability and vesting.

In closing, to come back to private pension plans, which in my opinion are accumulated savings plans, it seems to me that we should agree very soon that vesting should be immediate and that these plans should be immediately and fully portable. As far as locking-in is concerned, it seems to me that present conditions are quite limiting given that very few plans provide for indexation. If the mechanisms for locking-in contributions were made more stringent, this would be acceptable only on the strict condition that such deferred pensions be made fully indexed. Furthermore, in my opinion, it is out of the question of passing a law to make accumulated savings systems compulsory. As Senator Croll

said during dinner, here we have a public plan which is already fully portable, which allows for immediate vesting, and has produced and continues to produce transfer mechanisms. I feel that we should improve these plans, rather than set up very complex and probably costly systems.

Vincent Dagenais is Union Advisor, Fédération des mines, métallurgies et produits chimiques.

Protection Against Inflation

Ron Riley

The topic of this last panel is "Protection Against Inflation". As the Prime Minister said this morning, the challenge of inflation protection is one of the most difficult problems we will face in making changes and adjustments in the present pension system. We must however, be realistic and tough-minded about our situation. We're not going to solve the inflation problem through pension reform alone. Inflation is a large-scale economic and political problem. We have to have the will to address it but we aren't going to settle it simply by venting our frustrations about pension systems. This Conference is not, then, the proper forum for resolving all our concerns in this regard.

Before starting, I should say I'm trying to speak for the private plan sponsors this afternoon. The views are not necessarily my own or my Company's, and those of you who know me will know how difficult it is for me to submerge my own views, and I will try to let you know when they're sneaking in to what I have to say.

I am going to focus on the employee's position at retirement and assume that the problems of getting there have been dealt with in previous panels. We are concerned, then, with the eroding effects of inflation on pensions in payment. This is a complicated issue which must be looked at extensively and carefully in order to reconcile all points of view. We cannot look at this element in isolation: it must be examined in the light of costs and priorities in the context of the needs of the whole retirement income system. This requires a discussion and ranking of objectives and social issues which I don't propose to get into this afternoon but which I look forward to discussing in the workshops.

Let me start by enunciating a few principles which the private sector supports:

(1) The first principle is that the government should focus its efforts on providing a system of support for those most in need.
The business community briefs I have reviewed respect the urgency of this problem. We find many elderly Canadians, particularly single women, living in poverty today. Since many of them are not covered by the Canada Pension Plan, or by private plans, it is clear that the only way their situation can be alleviated is through government programs targeted to meet specific needs. The 70's have been a time of transition for the retirement income system. Those who will be retiring in the future will be in better shape than those who retired in the past, reflecting the gradual maturing of the system. It would be a grave mistake to design an ongoing system solely on the basis of yesterday's retirees. I think this point has been well made before, particularly and eloquently by Mr. Castonguay.
(2) The best guarantee of a strong retirement income system is to have a strong national economy.
(3) The best solution to erosion of pensions in payment is to control inflation.
(4) Individuals should be encouraged to provide for some of their own retirement needs and share with their employers and the government the responsibility for doing so; and,
(5) Income from all sources in retirement must be included in any examination of the retirement income system.

This last principle relates to the need to evaluate total retirement incomes and they may be divided into four tiers:

(1) The first tier is the OAS tier which is provided to all Canadians over age 65. Just to remind you, it's not employment related; it is augmented when needed by the Guaranteed Income Supplement program and/or provincial programs and the monies can be regarded as providing the income necessary to keep all pensioners above or at the poverty line.
(2) The second tier is provided by the Canada or Quebec Pension Plan and these benefits when added to the first tier, replace a good proportion of one's earnings up to the Average Industrial Wage (AIW).
(3) The third tier consists of benefits provided by employer pension plans; and,
(4) The fourth consists of personal income sources (such as investments, RRSP's, and the like).

The last tier is not really a subject for discussion at this point as the responsibility for inflation protection of this segment lies solely with the individual, but I would like to make two comments about it.

First, this tier responds to the principle to provide initiative for individual savings which the private sector strongly believes should be encouraged, and secondly, to the degree that these investments (such as equities or real estate perhaps) are themselves somewhat inflation protected, they provide automatic adjustments.

Before looking at the benefits derived from the

third tier, it is well to remember that the benefits from the first and second are today fully indexed, and since these tiers provide a significant proportion of pre-retirement income, at least up to the Average Industrial Wage, some of the need is being met. It is, however, a fact that almost all private pensioners are experiencing some loss of purchasing power over time, as private plans are generally providing only partial augmentation. Many employers do provide periodic supplements in recognition of this situation.

In considering this matter, we have to begin by distinguishing between today's and yesterday's retirees. Many of those now retired are not receiving the Canada Pension Plan, or only partial payments therefrom, and may have retired under pension plans which have since been substantially improved as to the benefits they pay. These are the people caught in the transition from the pre-1970's economic environment when inflation was not the problem it is today. Their position is vastly different from those retiring now who are in receipt of full and rising Canada Pension Plan payments and improved and extended private plan payments. The point I am trying to make is that the entire Canadian retirement income system is maturing and, as a consequence, those who retire tomorrow will be in better shape than those today or yesterday.

Some pensioner and employee groups support automatic indexation as the solution to the problem of the erosive effects of inflation. The problem with this, of course, is the additional overwhelming costs associated with it—which costs must come out of the total compensation package. Beginning with the total of private pensions being paid in 1979, a consulting actuary has projected the amount to be paid in 1981 and has estimated the cost of funding the liabilities represented by these payments. He then estimated the additional funding costs, were these pensions to be fully indexed to the CPI. The result was a staggering four to eight billion dollars with the actual cost expected to be somewhere about the seven billion dollar mark, and this was only for pensions already in payment.

He also considered new pensioners and the effect on liabilities, were they to retire on a fully-indexed pension without any adjustment to initial benefit levels. Liabilities for these individuals were estimated to increase by more than 75% at current rates. Obviously, full indexation would result in staggering cost increases to private plan sponsors. In addition, these costs are extremely difficult to predict, as inflation runs rampant and randomly through our economy. In simple terms, the private pension plan sponsors just cannot afford full automatic indexation, either for today or tomorrow's pensioners.

But there are alternatives. One is, of course, non-mandatory supplementation, possibly with some form of income tax encouragement from government to soften up the increased expense this entails. En passant, I would point out that the Department of Labour, based on its yet unpublished Survey of Wages and Working Conditions in 1979, has developed estimates which indicate some 61% of businesses with at least 20 employees already have provided some form of augmentation to pensions in payment. That's not a bad record, I suggest, and I expect it is improving.

A second alternative suggests that pensions be supplemented to the extent made possible by inflation-related earnings on that portion of fund assets which relates to liabilities for pensions in payment. There are many views on this, but I must point out that my Company and the Railway Association are opposed to such a proposal as it relates to a mature defined benefit plan.

Several problems must be resolved to make the excess earning approach workable:

(1) One is the choice of an interest rate to be used to reflect the true rate of return over which earnings would be available for supplementation. Too high a rate will produce little for adjustment and too low a rate can be a very costly choice for the plan sponsor.

(2) A second problem is what happens when the investment return is lower than the chosen rate. Obviously the pension cannot be reduced so that not only can pensions in payment not be augmented, but the shortfall could result in an experience deficiency. Investment managers must invest for long-term results. They cannot do this if they are under pressure for yearly results. Clearly, investment markets require longer terms for best results.

(3) A third problem is to preserve the incentive for the investment manager to obtain the best possible return; and,

(4) The fourth and biggest problem is the increase in the required contributions that would become necessary if any substantial portion of the earnings over and above a basic rate were to be earmarked for pension augmentation.

And these are but four of the problems we are going to have to face. One of the reasons we are having this Conference is to start exploring some of the trade-offs we are all going to have to cost out and evaluate, and I look forward to doing that in the workshops.

Legislative intervention will not by itself ensure that the additional costs can be properly integrated in a price and salary structure. The private sector is capable of adapting to new objectives that are decided upon by the society and can better make the necessary adjustments

taking into account needs, ability to pay, and the different circumstances of large enterprises or small businesses.

Legislation would be manifestly unfair were it to require employers, for example, with pension plans to provide escalation while those without a plan were burdened neither with a pension plan nor its escalation. Mention has been made earlier in the day of the possibility of introducing a mandatory minimum pension plan. Should such a plan come into existence, then surely any requirements for inflation protection of pensions should logically be limited to the benefits provided by such a plan as it would then provide inflation protection fully to the level of the order of the Average Industrial Wage.

There are three topics I just want to touch on before I sit down. One is the distribution of available funds. Some plan sponsors, suppliers and advisors do not support uniform supplementation. The preference for them is to be able to address needs and be allowed to increase the low-income pensioner's income by a greater proportion than that of higher income pensioners.

The second is the effect one achieves when supplementing the low-income pensioner. Often this individual is receiving GIS or some provincial supplement which is reduced by all or a portion of the plan sponsor's adjustment. In effect this is 100% taxation, at least in some areas, and I urge legislators at both the federal and provincial levels to rectify this situation.

My last point is when should supplementation begin. First off, it seems unreasonable to supplement the pensions of those who voluntarily retire early, at least for a few years into retirement. Secondly, some people are retiring today with spendable incomes in excess of that which they had prior to retirement, particularly when one considers the elimination of work-related expenses, preferential tax treatment and other benefits awarded to senior citizens. There is no need to adjust such pensions, at least until purchasing power slips substantially. This slippage, I might point out, is ameliorated by the impact of escalation to the government sections of pensions in payment and by the effect of escalated income tax deductions. Most plan sponsors would agree that a waiting period of some years is warranted and, given the initial level of payments under some plans, the waiting period may be substantially longer before serious erosion has occurred.

Ron Riley is Vice-President, Administration, Canadian Pacific Limited.

Andy Stewart

There are those who claim that indexation of pension income is somewhat of an extravagance and perhaps a frill that the economy cannot afford. I am just beginning to be convinced that there are some in attendance who just may be of that persuasion.

Adjustments of retirement incomes to the rate of movement in the Consumer Price Index is a feature essential to the success of retirement income planning in this country.

A pension without inflation protection is a license to gradual starvation. The average male retiring on a fixed income at age sixty-five, with inflation running at 10% per year, will have his real pension benefit reduced to one-quarter at death. For the average woman it will be less than one-fifth of the original value.

To the extent that earnings are a product of inflation, dollars are being transferred from pensioners to others in our society. Each year with an increase in the C.P.I., and no indexation of pension benefits, the national income is redistributed from pensioners to others almost in direct proportion to the movement in the C.P.I. I suggest to you that this is robbery.

This reverse Robin Hood activity continues year after year almost totally camouflaged by forecasters of doom and long engaging discussions on probability tables. Where are all of those who express so much concern over inter-generational transfers?

A fully indexed pension simply ensures that a pensioner will have the capacity to purchase the same basket of goods throughout his retirement years. The dollar value of the pension increases at the same rate as the basket of goods. I'm not going to bore you with examples. We all know what indexed pensions *are*. Where we may differ is probably on what they *should* be.

Present debate on the question of indexation of benefits in large measure, I believe, centres around risk—more specifically, whether or not employment-based plans can or are prepared to accept or share in that risk. There exists within the industry, I understand, a fairly wide variation of opinion on this subject. It appears to me, and I guess not surprisingly so, that a great deal of thought has been given to devising means of transferring the total risk to the pensioners themselves.

One of the most common proposals under which at least a measure of protection against inflation could be provided is to have excess earnings directed to that purpose. While this proposal in my view would be the ultimate in terms of transferring any risks involved, it *would* mean that pensioners would *at least* benefit from excess earnings passed on in the form of adjustments. They would, however, be denied access to the use of current contributions such as can be provided under a public plan. Another proposal would have earnings tied to indexed bonds. While having some redeeming features, I must reject this approach since I do not believe that governments should incur any expenditures regarding the operation of employment-based plans.

While not normally part of the indexation debate, there is another feature which is causing a serious erosion of pension benefits in a mobile work force. I am referring to the general lack of provisions in private pension plans to index the value of deferred benefits. It is not at all unusual in today's society for persons to qualify for a deferred benefit under pension plans sponsored by two or more employers. While they may qualify for deferred benefits, it is impossible to forecast what might be their value at time of retirement.

Consider the person who works twenty years with one employer and changes employment at the age of forty-five for whatever reason. He believes his deferred benefit will provide a major portion of his income in his retirement years. When reaching retirement some twenty years later, he finds that each dollar of his deferred benefit might have been reduced to twenty-two cents. That is precisely the effect of an 8% annual rate of inflation over twenty years. While plans do provide for nominal sharing of investment income over this period, this is not, however, a regulated requirement. Experience, unfortunately, has shown that these earnings are channelled elsewhere to provide improved benefits for current contributors.

In the past few weeks we have heard a great number of views regarding recent proposals to introduce an Inflation Tax Credit system based on the recommendations of the Haley Commission in Ontario. The recommendations were designed to provide for a measure of protection against inflation. The proposal advanced by the Haley Commission, while enticing in theory, is not a measure which could provide relief to those facing the greatest need. In fact, the proposal would, if enacted, provide no protection until age 68 and would then provide greater relief for those with higher retirement incomes since income from government plans would not be considered as income for the purpose of the Inflation Tax Credit. In addition to providing no relief until age 68, the proposal would delete the age 65 Income Tax Exemption and the present deduction of up to $1,000 of pension income; thus imposing an additional tax burden in the first three years of normal retirement. Without appearing too cynical, I

wonder if age 68 represents a significant plateau in the mortality tables.

It appears to me that it is fundamentally wrong to encourage people to contribute to a pension plan, particularly during their years of lowest earnings when it is known that the pension they will accrue will provide less than the poverty level at time of retirement. It is simply not worth the sacrifice to skimp in order to qualify for a pension which will be offset by some form of welfare at time of retirement.

I do not wish to be overly critical of existing employment-based plans. As you have been told, based on Average Income and Sources of Income for 1975, as reported in the Lazar Report, these types of plans only generate 12% of the income for those in retirement. Given their limited coverage, universal indexation of these plans to the C.P.I. obviously is not the complete answer.

Public plans must be the major vehicle to meet the needs of our elderly. Only public plans can provide these universal basic needs and provide the necessary protection throughout the retirement years.

In conclusion, Mr. Chairman, businesses can and do protect themselves against inflation through price or rate increases. The employed seek, and for the most part, gain protection through raises. The retired person who does not contribute to inflation is expected to bear the full brunt. When one looks at the average retirement income in this country, one should not expect *anyone* to live on that amount when eggs have reached *one dollar* a dozen. Surely *no one* would expect a person to live on the same pension dollar when eggs have reached *$5.00* a dozen. But sometimes I wonder.

Andy Stewart is President of the Public Service Alliance of Canada and member of the Executive Council of the Canadian Labour Congress.

Jean-Louis Delisle

I have been described as a diplomat. I hope no one expects that my role today will be to reconcile the many brilliant speakers who have preceded me. Instead, I will get directly to my topic which, by the way, is very general: pensions and inflation.

I think there is no need after today's discussions to argue at length about the second part of my topic, inflation, because it's obvious that retired people are hard hit by this economic phenomenon, which for all practical purposes has become uncontrollable. We need only remember the last Consumer Price Index (CPI) as announced by Statistics Canada last month. The annualized rate is up to 12.2%, following the highest monthly increase since December 1974, a price advance which reduced the purchasing power of a dollar in 1981 to 0.44 in 1971 dollar terms. We also must remember that this increase is due mainly to a rise in the cost of food, shelter and clothing, which are three of life's vital needs. If, on the other hand, we keep in mind that one-half of Canada's senior citizens live in poverty, the need to expand and improve the present pension system becomes more imperative.

For my part, I am here, above all, as a representative of a seniors' action movement associated with the Alumni Association of Laval University in Quebec City, which caters to those alumni who have either retired or are nearing retirement. Therefore, we deal with former professionals, professors, administrators, etc. These former university graduates are, more often than you would think, the uncomplaining poor, since out of pride they will not show their destitution in the face of insufficient retirement pensions. Their situation is greatly aggravated by skyrocketing inflation. Some time ago, the attention of our Committee was drawn to a situation it considers serious since it concerns a considerable number of former professors and administrators who receive only an unindexed pension, which is either less or just slightly more than social assistance. This situation arises because many members cannot buy back for pension purposes the time they spent as teachers or administrators in private and usually religious academic institutions at the secondary level which did not have a pension plan, before being able to contribute to the university pension fund.

This is a special category of needy pensioners, a group of forgotten human beings who are wasting away in the lonely world of retirement, in a somewhat similar position as widows under 65 who, never having worked outside the home, have neither public nor private pensions. These neglected groups feel the extremely serious effects of inflation more sharply. It would seem urgent that sufficient and immediate assistance should be offered them, and I think, in this particular case, the government should act. Generally, my observations here apply to all retired people with insufficient incomes. Their expenses are rising with prices while their incomes remain unchanged, or are increasing at a slower pace. To illustrate this, let's examine the following hypothetical situation: for a worker who retired in 1966 on a pension without protection against inflation, the relative purchasing power of his income would have been 57% in 1976, and 42% in 1981. With the 12.2% inflation rate announced by Statistics Canada last month, a fixed pension would have been reduced by almost half in less than six years. Let us see how the same situation applies to public and private pensions.

Many retired people took part in a pension plan sponsored by their employer during their working life in order to get a more comfortable replacement income. Unfortunately, there are only a few private plans with an automatic post-retirement benefit indexation clause.

In 1978, about 32% of participants in employer-sponsored plans were entitled to retirement benefits linked to the Consumer Price Index, but the majority of these employees were in the public sector. Twenty-two per cent of the participants with automatic protection had a rider clause either equal to or greater than the CPI. The remaining 10% could expect protection lower than the CPI.

Less than 5% of private sector workers have plans with an automatic indexation clause. Inquiries to private enterprise have shown that certain "ad hoc" adjustments were made as partial compensation for the rise in the cost of living, whenever profits allowed. The majority of these enterprises offer only partial indexation of 2% or 3% per year.

However, large companies are more likely to protect their pensioners against inflation than small ones. A survey of the manufacturing sector in Ontario showed that 80% of businesses with at least 1,000 employees make such adjustments as opposed to only 28% of businesses with 100 to 1,000 employees.

These statistics show a serious gap in private pension plans as far as protection against inflation is concerned. In spite of their weaknesses, these plans nevertheless remain an important source of income for senior citizens, and their contribution to the collective incomes of future generations of senior citizens should increase rapidly, if such changes as greater coverage and improved benefits are made. But this contribution will

be considerably lessened unless satisfactory steps are taken to thwart the ravages of inflation.

Let me remind you in closing of the feeling of injustice and annoyance in the private sector against governments and public service pension plans because of their liberal policy of indexing pensions to the cost of living. This is seen as a sign of favouritism at the expense of private enterprise, which says it is unable to be that generous toward its workers, all the more so because it is made through taxes to fund a good part of the government's generosity toward its workers in this area.

As a matter of fact, we must be convinced, before long, that public service pension plans are only a preliminary model for a pension plan system that will be more equitable and satisfactory for all Canadians, a system that we hope will be established in the near future by way of open and constructive cooperation between the public and private sectors.

Jean-Louis Delisle is President of the Committee for Gerontology at Laval University.

Ron Riley

Let me just summarize my position:

- We share the government's concern about the effects of inflation (and I might say, Andy Stewart's concern about the price of eggs) on those with fixed incomes, and many private plans are already doing something about it.
- The problem of inflation protection is perhaps most acute in respect of those who have been retired for some time.
- The problem with respect to future retirees is perhaps not as critical provided, of course, that inflation does not get totally out of hand.
- Full automatic indexation of private pensions on the basis of a price index represents an unacceptable burden for the plan sponsors, particularly because of its cost, its unpredictability and its unmanageability. However, the private sector can provide, we believe, the best routes for meeting this problem. Bear in mind that there are all manner of different kinds of private plans in place. These plans were put in place in response to pressures in the past, presumably for very good reasons, and they have to respond a little differently to the requirements of indexation or to the proposals for that. But periodic adjustments can be made where costs can be controlled and managed. Difficult trade-offs will be involved and we all—employers, employees and governments—must be prepared to face the consequences as our collective resources are not unlimited.

In closing, ladies and gentlemen, let me just add that this is a very complex subject. There are many solutions being proposed. Before committing the country beyond what we now provide, a careful and detailed analysis of long-term cost implications must be performed and the benefits clearly spelled out. It is also essential that we understand and can afford what we undertake to do.

Dr. James R. Nininger

Summary of the Panel Discussions on The Future Shape of Private Sector Pensions

Dr. James R. Nininger

Before presenting my summary comments I would like to congratulate you, the delegates, for being most attentive and patient in listening to the presentations today. I know you are anxious to express your views and the opportunity to do this is not far off.

In case you have not been keeping track, you have listened to 17 individuals talk to you today about various aspects of pensions. I am number 18 and the last, and I will be brief.

In preparing this summary, I would like to express my thanks to two of my colleagues at the Conference Board, Jim Frank and Alister Smith, who have assisted with the individual summaries and to the staff of the pension conference who have provided typing assistance.

The purpose of the panel discussion this afternoon has been to examine a number of important aspects of the private pension system and, in doing so, to address deficiencies and to suggest appropriate reforms. It is clear that all the participants this afternoon agree on the necessity for changes in Canada's pension system. There are, of course, differences of opinion as to how these reforms should take place. However, common to all the participants is a desire for constructive change.

We were pleased to accept the invitation of Madame Bégin, to present this summary. Our role is to provide a fair and balanced summary of the key elements of the panel discussions. This is in keeping with our mandate, as an independent non-policy-prescriptive research organization. The purpose of the summary is to briefly review the main points made this afternoon in order to assist in providing a focus for the workshops tomorrow.

Due to the complexity of the issue and the limited time available, it will be impossible to cover in detail the views expressed in the 13 presentations heard this afternoon. It should also be recognized that it is difficult to confine this discussion to private plans since the present pension system is one that integrates public and private elements. Nevertheless, on each topic, the panelists' views will be summarized and, in the conclusion, a number of the strands of the various discussions will be drawn together.

It is important to keep in mind the ongoing nature of the process of pension reform. Canada's pension system has evolved as problems became apparent due to economic, social, demographic and other changes. Pension reform is not a process that should be regarded as occurring *at one point in time*. The retirement income system is continuously changing *over time*.

Let me begin by briefly reviewing the *goals* of the current pension system as it has evolved.

The difficulties of a consensus-seeking approach to pension reform should not obscure the fact that there are some basic goals on which there is general agreement. While the need for reform has been established by the many studies of the overall system, the two basic goals of our mixed system of public and private pensions have not been challenged. These goals are:

(1) the alleviation of poverty among the elderly, and
(2) the maintenance of living standards in retirement that are roughly equivalent to those enjoyed in working years.

These goals reflect the preferences of a society that wants to prevent poverty among the elderly but that supports differences in retirement income, above the basic minimum, that reflect differences in earnings during working years.

It is agreed by the panelists that poverty among the current elderly has not been alleviated and cannot be alleviated by changing present employment-based pension plans. The conclusion that should be drawn is clear: relief for the current elderly poor must be provided by OAS and/or GIS. It is important to distinguish between this problem, which is a more immediate social concern, and the other problems discussed today which will affect the future elderly.

In addition to these two basic goals, there is increasing agreement that private pension benefits are deferred wages. The survey conducted by the Canadian Pension Conference and the increasing use of total compensation concepts show how general this view has become. What is not yet realized is just how significant this principle is and its implications for the pension system.

Let me now turn to a brief summary of the four panels.

SUMMARY OF THE PRESENTATIONS

Coverage

However measured, the coverage of workers by private pensions is less than complete. All of the participants on this panel view the incompleteness of coverage as a serious problem.

Mr. Panabaker outlines three basic policy positions on pension reform which have implications for the extension of coverage. The first involves the "renovating" of private plans. The second involves two forms of mandating—mandatory plans meeting certain minimum standards (as advocated by the CLHIA) and mandatory plans along the lines of the Provincial Universal Retirement System (PURS) proposed by the Ontario Royal Commission. The third is the extension of the C/QPP. In opposition to this last option, Mr. Panabaker argues that an expanded C/QPP may result in a lack of savings and investment capital if it is unfunded or the problems of state control over funds if it is funded. He believes that a solution to the coverage question which avoids excessive dependence on government is necessary. He personally favours mandatory minimum plans.

Mr. Rygus views the incompleteness of coverage as one of the primary reasons for the inadequate retirement incomes of most Canadians. An expansion of the private system cannot solve the basic coverage problem. He believes that mandatory plans, regardless of the type, amount to personal savings plans not pension plans. The coverage of private pension plans in future, according to Mr. Rygus, must be viewed as supplementary to an expanded public system.

Mr. Bulloch points out that pensions are relatively uncommon among small- and medium-sized employers because pensions are prohibitively expensive. In many of these firms which employ very small numbers of employees, the main preoccupation is the sheer struggle for survival. He emphasizes that the majority of his members use RRSP's for themselves and their spouses, and expect their employees to do likewise. Because of inflation he argues that the limits for contributions to RRSP's should be increased immediately. His members reject mandatory retirement, and support voluntary participation of housewives in the CPP. They consistently favour maximizing freedom of choice and consequently, in view of the precarious financial situation of new small businesses, and the wide use of RRSP's, he urges that government not be too hasty in legislating new pension arrangements.

Louise Dulude is critical of the low coverage of women. She feels that the only efficient way of providing good coverage for women is under an expanded C/QPP. She focuses on the public system which she argues has been highly discriminatory toward women but can be changed to meet the needs of women. She suggests an approach whereby women in the home caring for young children could participate in the C/QPP but would not have to contribute. Women working in the home and not caring for young children could also participate but spouses would be required to make payments. Contributions would be imputed on the basis of an assumed earnings rate of one-half the Average Industrial Wage.

While there are obvious differences in fundamental positions, none of the panelists opposes the extension of coverage. The real differences arise in *how* coverage should be extended. Mr. Panabaker supports mandatory plans. Mr. Rygus favours an expanded role for the C/QPP. Mr. Bulloch favours the improvement of RRSP's. Louise Dulude would like to see the C/QPP extended to cover women working in the home.

Now let me turn to the second panel.

Women and Pensions

Perhaps no problem with the current pension system offends more Canadians than the extent of poverty that exists today among elderly women. The panelists in this group all expressed serious concerns about this. But, in addition to this pressing social problem, all three speakers pointed out difficulties posed by the current pension system for women who are presently working, whether inside or outside the home.

Mr. Hamilton believes that women's changing role needs to be recognized in planning for the future. Changing the traditional way of thinking of women as dependents must be reflected in any major pension reform. In the *short term,* the immediate problem of poverty among elderly women should be addressed by changes in the GIS. Improved spousal benefits and a division of contributions upon marriage breakdown will benefit women. Many private sector organizations, he states, are suggesting that universal plans should provide an automatic joint and survivor benefit of at least 60%. There should be an equal division of pension credits on marriage breakdown. In the *long term,* it is his belief that, by adopting a mandatory retirement plan similar in concept to the PURS recommended in Ontario, many of the particular problems confronted by women will be resolved. He also urges that careful consideration be given to the use of unisex tables in calculating pension benefits.

Mr. Collins argues that while women have a very large stake in proposals for improving the overall pension system in terms of coverage, indexation, vesting and portability, only an expansion of the CPP can deliver on all fronts. Changes in the CPP are also necessary. He favours the enactment of a "drop-out" provision for parents caring for children under age seven. Keeping this in mind, changes in private plans which would have significant benefits for women include the following: the use of unisex mortality tables; a minimum survivor's pension rate of 60% unless the spouse signs off the benefit; full and independent rights

to disclosure; the treatment of pension credits as property on marriage breakdown; and, the extension of eligibility for membership to part-time workers.

Louise Dulude regards the present design of the C/QPP as a "disaster for women" but feels the private pension system can do little to improve the benefits of women. To improve the treatment of women, she suggests the following: a child-care drop-out period; the participation of homemakers in the C/QPP; and, the equalization of C/QPP credits on marriage breakdown. In her view, the only useful role private pensions could play is to supplement the benefits of those with above-average incomes. But she feels the following changes would be necessary for private plans: quick vesting; indexing through the use of excess earnings; mandatory joint and survivor pensions giving at least 50% to the surviving spouse; and automatic splitting of private pension credits and RRSP's on divorce.

I would like to turn now to the third panel.

Portability, Vesting and Locking-in

Earlier minimum vesting standards were seen as necessary by all members of this panel. But while improved portability is regarded as similarly desirable it is recognized that it involves special problems.

Mr. Perrault points out that, in general, industry supports the view that pensions are deferred compensation. Industry favours more rapid vesting of pension benefits and is anxious to find a solution to the portability problem. A number of private sector organizations have called for full vesting with five years of service or less. He believes a consensus is also emerging on the need for some form of inflation protection of deferred vested benefits. Mr. Perrault states that perhaps full vesting after five years of service should be the immediate goal of all private plans. In addition, he suggests that not more than 50% of vested benefits be financed by the employee; that the employee and employer shares be locked-in; and, that the value of vested benefits be protected by ad hoc adjustments or the vested benefits transferred to individual RRSP's.

Mr. Hanmer outlines the need for improved vesting and portability but expresses the view that an extension of the CPP may be the only answer if one takes into account the need to expand coverage. He doubts that additional plans will be offered by small- and medium-sized employers if improved standards for vesting and portability are legislated. He favours an extension of the CPP to provide 45% of average wages and salaries on retirement and an immediate and substantial increase in the GIS.

Mr. Dagenais bases his argument on the view that pensions are deferred wages and as such must be vested immediately and be fully portable. Private plans cannot cope with the very complex problems of full portability, nor can they provide full coverage. He is against legislation of what amounts to savings plans since the uncertainty of the future makes the purchasing power of these savings indeterminate in retirement. Retirement income should be seen in a social context as a right of everyone in society. As such, only the public system can accommodate the social dimension of pensions or meet the need for immediate vesting, indexing of locked-in credits or full portability.

Now, I would like to turn to the last panel.

Protection Against Inflation

The problem of protecting private pension benefits against inflation is a particularly troublesome one. While each of the panelists expresses concern about the erosion of purchasing power, there is a difference of opinion on what should be done.

Mr. Riley states that the private sector shares the government's concern over the effects of inflation. But he feels that some of the need for inflation protection is being met by the indexation of OAS, GIS and C/QPP. He argues that full indexation would involve "overwhelming costs" for the private sector. The private sector, in his view, cannot afford full indexation either for today's or tomorrow's pensioners. Two alternatives he considers are: non-mandatory supplementation, possibly with some form of tax encouragement, and supplementation through inflation-related earnings. He points out several problems which must be resolved to make the excess earnings approach workable. A careful and detailed analysis of the long-term cost implications of proposed solutions must be performed before commiting the country to any one of them.

Mr. Stewart argues that full indexation is essential to the success of retirement income planning. Unindexed pensions redistribute income from pensioners to others in society. He feels that the excess earnings method would transfer the risks to pensioners even though they would at least benefit from the excess earnings that would be passed on. Deferred benefits should also be indexed. In summary, his view is that public plans must be the major vehicle for retirement income support.

Mr. Delisle points out that inflation is out of control. Price increases in food, housing and clothing present an urgent problem for retirees. Improvements in our pension system are imperative—especially for the neglected, forgotten groups such as those with very poor pensions or those with no pensions at all (such as housewives). The state must take action to meet the needs of these groups. There is a serious deficiency in

private plans with respect to inflation protection though these plans remain very important to many retirees.

In conclusion, there are a number of points which should be kept in mind in the workshops tomorrow.

I would like to raise five points:

(1) It should be recognized that Canada is not unique in having to come to grips with the problems addressed today. Many of the OECD countries have been, or are currently involved in, re-examining their pension systems in the face of similar economic, social and demographic pressures.
Every society must make difficult but important choices on this matter. The fundamental choice for Canadians is what price our society is willing to pay to ensure adequate support for its citizens in retirement.

(2) It is not possible to treat the private pension system in isolation in the discussions of pension reform. The panelists have demonstrated this fact by making several references to the public pension system in the context of their discussion of the private pension system. It is, therefore, important to view Canada's pension system as an integrated system.

(3) In a broad sense, Canadians are faced with deciding what retirement income system we want and what we are willing to pay for now and in the future. This is a question of trading current for future consumption. If we want an improved pension system in this country we must be prepared to forego present consumption in favour of greater saving.
The costs of various alternative reforms must be assessed and properly communicated but it is important to understand that cost estimates are only as realistic as the assumptions that underlie them.
During the debate about the future of our pension system, it is very important that technical aspects not be allowed to cloud the essential issues. Technical solutions will follow once the basic philosophical issues are resolved. Much of what has been discussed here today revolves around basic philosophical differences.

(4) In the final analysis, what will determine the future shape of the pension system is a political decision which will be based on a broad consensus of the primary responsibilities of individuals, employers and the state in providing for retirement.

(5) Finally, it would be a mistake to judge the success or failure of this Conference in furthering this process by whether or not a consensus is reached. This Conference must be viewed as part of an important and essential ongoing dialogue which will lead to pension reform. The important point is that delegates are brought together to discuss their views. Pension reform is a matter of great importance which will affect many lives over many years to come. It is critical that in choosing a new direction, we choose wisely.

In closing, if I could make a personal comment, I have been impressed with the *tone* of the sessions today. The tone has been positive and constructive—and I think this augurs well for the discussions tomorrow and the subsequent discussions leading to pension reform.

Dr. James R. Nininger is President of the Conference Board of Canada.

Closing Remarks

William Kennedy

We now have heard the private sector response to the government's request for solutions to problems in four critical areas.

In closing, may I make a request to all levels of government that they assist the process in four ways:

- that current unacceptable levels of inflation be brought under control;
- that they strive to provide more equitable treatment in government social welfare, income tax and subsidy programs for elder Canadians;
- that fiscal responsibility be maintained in all government programs; and
- that there be uniform pension legislation across Canada.

In addition, may we suggest that at some time in the future another National Pensions Conference be held to deal specifically with public sector programs.

William L. Kennedy, B.Sc., P.Eng., CIM., is President of the Canadian Pension Conference, a voluntary non-profit association that endeavours to take a neutral position in the pension debate. The CPC's primary function is to provide opportunities across the country for discussion of income security issues by its members, who represent a broad cross-section of the private sector, including retirement plan sponsors, suppliers of services to the pension industry and representatives of plan members. A chemical engineer from the University of Manitoba, Mr. Kennedy has held a variety of technical and production management positions with his present employer across Canada and in the United States. Currrently he is Manager, Compensation, Union Carbide Canada Limited.

Reports on Workshop Discussions

Don Coxe

Introductory Remarks
Don Coxe

This morning's session is the wrap-up session and I am delighted to see you all back here for this one in particular, since this is where we try to put it all together.

I'd like to say a few words about procedure this morning. First, an announcement about the texts of the four addresses. Each Workshop Coordinator will be presenting a report summarizing the discussions which took place in his or her workshops. You understand, of course, that these reports were all prepared last night and are still in draft form. In spite of this, however, they are all of excellent calibre and, with respect to the many people who requested the reports, Conference officials have arranged to make copies available to you at the end of this session. Later, the final versions will be included in the full Conference report.

Each presentation will be followed by a fifteen to twenty minute question period where questions from the floor can be directed to the Coordinator or to any one of the Workshop Leaders. We are obviously going to have to run this thing through at a fairly high rate of speed so I would ask your cooperation in being as brief as possible and confining your questions to the topic at hand.

Our first topic this morning is "Coverage" – where it all began. The Coverage Coordinator is Bob Baldwin of the Canadian Labour Congress. Workshop Leaders are Colin Mills, Lise Poulin-Simon, Diane Bellemare and Yves Guérard. Monica Townson's report on "Women and Pensions" will follow, with Workshop Leaders Don Lee, John Turnbull, Lucienne Aubert, and Margaret Wente. Monica is a journalist and is with the Economic Council. The third report on "Portability, Vesting and Locking-in" will be given by Robert Granger who is Special Assistant to the Vice-President, Administration, Canadian Pacific. Workshop Leaders here are Ian Bovey, John Corp, Jacques Dion and Bruce McDonald. And the last summary – "Protection Against Inflation" – will be delivered by Jim Paterson, Consulting Actuary with Paterson, Cook Ltd., and one of the participants in the federal task force. The Leaders for this Workshop topic are Laurence Coward, Kristina Liljefors, Claude Dumont and Jim Pesando. I'll now turn the floor over to the Workshop Coordinators.

Donald G.M. Coxe, LL.B., joined Mutual Life in 1971. He is currently serving as Executive Vice-President and Secretary-Treasurer of Mu-Cana Investment Counselling Ltd., a wholly-owned subsidiary of the Mutual Life of Canada. A graduate of the University of Toronto and Osgoode Law School, Mr. Coxe was called to the Bar in 1962. He has experience in journalism, law and investments, including the organization and management of a mutual fund. Mr. Coxe served for six years on the advisory committee of the Canada Pension Plan and has made many speeches on the subject of pension investments including meetings of The Conference Board, the Canadian Pension Conference and the Association of Canadian Pension Management. He represented the investment and pension industry on the Royal Commission on the Status of Pensions in Ontario. Mr. Coxe directs the separate fund services and investment counselled accounts through Mu-Cana.

Robert Baldwin

Report of Workshops on Coverage

Robert Baldwin

Each of the 16 workshops on pension coverage had its own unique dynamics and none arrived at conclusions that were identical with any other. For the workshop leaders and myself this naturally posed difficulties in synthesizing and summarizing the discussions. We have encountered the inevitable need to leave out of our account much of the rich and inciteful detail in yesterday's discussion. For those of you who participated so actively in the discussions, I hope you will understand that if your particular contribution is not recorded in this report it is because of the need to summarize from a great deal of discussion. It is certainly not the result of a desire to ignore you.

Most of the discussion of pension coverage related to the objective of providing replacement income. However, there was some discussion of coverage as it related to the provision of a minimum income floor and I will report first on this aspect of the coverage question if only because it was the subject of far less controversy.

There was general agreement that governments should take full responsibility for providing a minimum income floor and that the national OAS and GIS programs should play the key roles in this regard. Although it was not widely debated, it was suggested by a number of delegates that OAS and GIS levels need to be raised. There was some disagreement however, on which of OAS or GIS should be increased. Emphasis was placed on OAS and GIS, with the possible assistance of provincial supplements, as the way of dealing with the income problems of the current elderly.

Several other comments concerning OAS and GIS are worth recording at this juncture. The point was made by several delegates that, in future, income replacement from public and private sources should at least be sufficient to remove the need for GIS for retirees with a long work history. Other delegates expressed concern about the fact that the combined tax back rate on GIS and provincial supplements serve as a disincentive to low-income workers to provide for their own retirement. Finally, some delegates expressed a preference for increased OAS benefits as opposed to increased CPP benefits.

The subject of coverage as it relates to income replacement gave rise to a good deal of lively debate and disagreement. There was, however, a common point of departure in the discussion of the issue in the following respects:

(1) income replacement was recognized as a valid objective of the Canadian pension system;
(2) pension coverage was recognized as a central issue in providing income replacement; and,
(3) the existing OAS and CPP schemes were taken as given in discussing the issue—in other words, there was no question of eliminating the programs or reducing their benefit levels.

In addition, there was widespread agreement that some level of pension coverage needs to be universal, and also that special groups such as part-time and seasonal workers have particular problems in the area of private pension coverage. However, it should be added that while this generalization was widely expressed and generally not debated it is not entirely consistent with some of the views that will be reported later on in this report.

A number of delegates also expressed the view that the question of coverage had to be looked at in relation to both coverage through time and the quality of coverage. However, this point was not widely debated.

There was general agreement among the delegates too, that the responsibility of government to provide or mandate pension coverage for purposes of providing replacement income is limited to incomes up to a certain level of pre-retirement income. Most delegates cited the Average Industrial Wage as the relevant upper limit. But, there was a significant expression of opinion that this upper limit should be as high as 1.5 times the Average Industrial Wage. Beyond the upper limit—whatever it might be—the general view was that voluntary arrangements of a group or individual nature would take care of pension coverage.

Bearing in mind that the OAS and CPP with their current levels of benefit were taken as given, most of the time and energy in the workshop debates focused on what needed to be done to provide adequate coverage below the maximum income level just referred to. Several schools of thought emerged on this issue:

- some delegates argued that when it has matured, the existing voluntary private coverage, coupled with OAS and CPP, already provide adequate coverage for those choosing to take advantage of it;
- others argued that this voluntary coverage assisted by increased tax incentives and awareness programs that demonstrate the need for pension coverage are capable of providing adequate coverage;
- on the other hand, some delegates argued that volun-

tary coverage will never be adequate and therefore a legislated program of private coverage is required; and finally,

- some delegates argued that pension benefits available from the CPP/QPP should be increased.

Each of these views had strong supporters and none claimed an overall majority support. The only one that can be identified as having minimal support is the view that coverage is already adequate below the upper income limit referred to a few moments ago. It should also be noted that these schools of thought sometimes had subtle variations.

This is especially true of the legislated private pension proposals some of which include "opt-out" proposals for existing private plans, and others of which would have provided for compulsory employer plans but voluntary employee participation. Minimal discussion was given to the possibility of an increased C/QPP benefit with the right of private plans that meet certain standards to "opt-out".

Within the workshops themselves, there were few instances of delegates changing from one school of thought to another. The proponents of both voluntary and compulsory private coverage tended to be drawn most heavily from the employer groups, financial institutions and the pension industry. Within this group there was a tendency to state an order of preference for either voluntary private coverage or mandatory private coverage as a first choice, and the other second. There was a minority view that expressed a preference for voluntary private coverage first, and increased C/QPP benefits second. Expanded C/QPP benefits were supported by labour delegates and to a less pronounced degree by many delegates from pensioners' and women's groups.

The issue that separated the supporters of voluntary private coverage from the supporters of mandatory programs in either the public or the private sector was primarily philosophical. The supporters of voluntary coverage viewed any form of increased mandatory coverage as being in conflict with the principle of individual or group responsibility for providing for their own retirement income. They also share the concern expressed by the supporters of mandatory private plans with the economic and financial consequences of an expanded C/QPP.

The supporters of mandatory private pensions of the savings variety view their proposal as representing a compromise on the question of individual responsibility. In this regard, they view the choice of investment vehicles for mandatory savings as a reflection of the individual's responsibility for providing their own retirement income. Others viewed this choice of investment vehicles as a source of substantial inequities in the benefits to which workers with identical earning histories would become entitled.

The issue that divides the supporters of mandatory private plans from the supporters of expanded C/QPP benefits is primarily economic and financial. It does not relate to the claim of the supporters of expanded C/QPP benefits that these programs can deliver universal benefits in a quicker and a more equitable way than mandatory private plans. The two groups disagree on the relative cost of the two approaches to providing pension benefits and to the willingness of the population to bear the future pay-as-you-go cost of an expanded C/QPP. They also disagree on the potential problems posed by the accumulation of any fund that might accumulate under the C/QPP in terms of government financial control of capital markets and the financial soundness of the plan. Supporters of an expanded C/QPP tended to deal with it as a pay-as-you-go plan and generally did not express a concern about government control of any fund that might accumulate under the C/QPP. However, some supporters of an expanded C/QPP did raise the possibility of revising the rules governing investments from the CPP Investment Fund so that some of the money from this source would be channelled into private capital markets.

As the foregoing remarks will have revealed, the workshops gave rise to a great deal of controversy as to the role governments should play in inducing, mandating or providing increased pension coverage. Opinions were sharply divided throughout the discussions and there was very little movement toward a consensus. On the positive side, the discussions did make it possible to clarify the issues that separate the various schools of thought.

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Monica Townson

Report of Workshops on Women and Pensions

Monica Townson

I shall now attempt the impossible. In the space of ten, or at the most fifteen minutes, I am going to summarize discussions that took place in 16 workshops on the subject of women and pensions. According to my calculations, that's more than 21 hours of talking time, or about three full working days' worth of discussions, debates and altercations. So if the quickness of the hand deceives the eye—so to speak—you must forgive me. If I missed out some important point that somebody made, it was probably not intentional. And there will be an opportunity for you to get clarification on any issue that needs it after I've made this presentation.

You'll notice that I said any errors or omissions were probably not intentional. While I have tried, in writing this report, not to let my own biases creep in, the subject of women and pensions is one about which I care very much. And I must confess that it wasn't easy for me to sit in on some of the workshops and not be able to get involved in the discussion. But my role this morning, as I understand it, is to act as a kind of conduit for the views expressed by all the participants at this Conference. So while I personally may not share many of those views, I shall do my best to remain an unbiased observer. So here goes:

As you can imagine at a conference like this, it would be remarkable if there were any consensus on solutions to the problems of pensions for women. There was not even agreement on what those problems were. . . but more of that later. On one thing there was virtually unanimous agreement from all workshops. That is, something must be done immediately to improve the desperate situation in which the majority of elderly women in Canada find themselves today. It was generally agreed that that action should be to increase the Old Age Security/Guaranteed Income Supplement so that the combination of those two amounts would give an individual alone an income above the poverty level. While some would be in favour of increasing the basic OAS, most people advocated an increase in the means-tested GIS. Again it was virtually unanimous that this should be a top priority for the federal government as far as the retirement income system is concerned.

Once discussions moved away from what can be done for women who are already retired, consensus seemed to disappear. Last night at the banquet we heard this Conference compared to the launching of a ship. While the Minister said she hoped that ship would not turn out to be the Titanic.

When I was thinking how to summarize the discussions of women and pensions, it seemed to be more a case of paddle your own canoe, or rather let your husband do it for you. If you don't have a husband, then it may be a case of sink or swim. It was clear to me that in trying to reform the pension system for women, we may well be on a slow boat to China.

The discussion of women and pensions in most of the workshops focused on women as survivors and women as homemakers. Not many people wanted to consider women as plan members—perhaps they thought that this would be addressed in the workshops on coverage.

On the question of homemakers, there seemed to be general agreement that those who raise children should be covered by the retirement income system. But there was no consensus on how this should be done. There was virtually unanimous support for the child-raising drop-out provision now in the Quebec Pension Plan to be included in the Canada Pension Plan. But many felt that similar provisions would not be possible in private pension plans. One suggestion was to allow an employee who leaves the labour force to raise children to buy back those years of service when she returns to work. But this would only apply if the worker returned to the same employer. Another participant thought that withdrawal from the labour force for child bearing or child rearing could be treated in the same way as disability under the private pension system and that the employer could also be expected to contribute to a pension during this period of time.

For women who do not return to the labour force after having children, there was no general agreement on what could be done to include them in a retirement income system. The only thing on which almost everyone agreed was that voluntary contributions to the CPP/QPP were not a good idea. Many people felt that "motherhood" was the most important job that women do and, as one participant said, "We should compensate the mothers of today for bringing up the pension contributors of tomorrow."

But there was some nervousness about imputing a wage to homemakers as a basis for calculating what pension they should get. Some felt that homemakers should be taken care of through the universal OAS/GIS and others said that if they all got survivor's benefits, the problem would be solved. There was not too much dis-

cussion of how these women would be provided for if divorce intervened before the survivor's benefits came into effect. In this case, the feeling seemed to be that the splitting of pension credits on divorce would get around the problem.

There was a fair amount of discussion about the splitting of pension credits. Some expressed the view that the reason so few spouses are making use of the pension credit splitting provision in the CPP may be because women are getting divorced at younger ages when pensions are not a major concern and they have little income at divorce so they may trade off their pension rights for a cash settlement. There seemed to be no general consensus on the splitting of pension credits in private plans. Some felt that an accumulation of pension credits should be regarded as "family assets" and divided at the discretion of the courts and several made the point that most courts would have the good sense not to divide up pension credits in this way because it was too complicated. Others said that pensions should be regarded as deferred wages and should be considered as funds from which maintenance payments could be met at retirement age.

Much of the discussion in all of the workshops focused on survivor's benefits. The implicit assumption seemed to be that a wife would probably not have any pension entitlement in her own right, although one participant had no objection to a wife who was getting her own retirement pension getting a survivor's benefit through her husband's plan as well. Some people made the point that many private plans do provide survivor's benefits but employees seldom opt for them because it means a lower retirement pension. Others said that employers resist union attempts to bargain for spouses benefits because it costs more.

Almost everyone favoured mandatory survivor's benefits, and most said they should be at least 60%. Some suggested a joint and survivor benefit with the possibility of sign-off if both spouses agree.

One or two participants pointed out that mandatory survivor's benefits should not be regarded as a panacea for women's pension problems. And another expressed the view that the discussion failed to take account of the marital transformation now taking place. A man may leave his wife to live with another woman. If there is no divorce, the wife is still entitled to survivor's benefits, but he may live longer with the second woman. Representatives of women's groups argued that women should have pensions in their own right and not as dependents of someone else.

There was quite a bit of discussion of the fact that many women work part-time and a feeling that part-time work may increase in importance for both men and women. There seemed to be general consensus that part-time workers should be able to participate in private pension plans. But others said that part-time workers would not be willing to give up any of their salary to contribute to a pension plan—in fact some said that women workers in general did not want to participate in pension plans. It follows that if the private pension system is to include part-time workers, only mandatory or non-contributory plans will be effective.

Some cautioned against mandatory private pension plans on the grounds that women would not be able to afford to participate in them because of low salaries.

And the question of salaries came up in many of the workshops. Many felt that the inadequacy of women's pensions reflected the inadequacy of women's salaries, but at the same time there were those who thought that equal pay for work of equal value was not a valid strategy for improving women's salaries.

Problems of vesting, portability and coverage were not seen as having too much to do with women, although some concern was expressed about vesting where there is discontinuity of service—for example, because of child-rearing.

On the subject of money purchase plans and whether or not women and men who had made the same contributions should receive the same benefits when they purchase a pension—there was some quite heated discussion about unisex mortality tables and other ways of providing equal benefits for women without requiring them to make higher contributions. Some of the actuaries present said they would not be opposed to the use of unisex tables if the same table of mortality rates were mandatory for all plans.

A recurring theme through all the discussions was that if there are problems for women in the retirement income system, they are "social" problems and not pension problems. "We can't use an economic system to deliver social goals.", said one participant. "Federal and provincial governments should issue some statement of their position on homemakers.", said another. "Women in the home are a social issue.", said a third. Many argued that society cannot afford to make adequate provisions for those in need. If housewives are going to get something, what about the disabled and people who do volunteer work and so on? Although some others made the point that society cannot avoid the cost of supporting in their old age those without earnings before retirement.

The representatives of women's groups asked for some proposals from the pension industry for providing decent pensions for women. The discussion of what the private sector could do to improve the situation for women focused on survivor's benefits and the extension

of coverage to part-time workers. Many participants expressed the view that improvements to public programs would be the most effective means of achieving pension equity for women.

So there you have it. I will refrain from comment—except to point out that several of the workshops discussing women and pensions had no representatives of women's groups in them. Some way must be found now of involving women themselves in the discussions of their retirement income provisions. Perhaps through a series of regional conferences on the subject of women and pensions. If this Conference represents the launching of a ship then we must make sure we don't sail off into the sunset leaving half the crew behind on shore.

Monica Townson is Chief of Public Communications at the Economic Council of Canada.


Robert Granger

Report of Workshops on Portability, Vesting and Locking-in

Robert Granger

It gives me great pleasure to present the report of the workshop discussions on the vesting, locking-in and portability of contributions to this Conference.

Without a doubt, the style of this presentation would be better in my mother tongue but, since I received the reporters' notes in English, I will give my report in English.

As was anticipated, it has been very difficult to confine the discussions during the workshops to the topics assigned. Admittedly, it is sometimes impossible to discuss one aspect of pensions without making reference to broader concepts.

Inasmuch as this difficulty was experienced in all workshops, I will try, to the extent it is not relevant, to limit my remarks to vesting, locking-in and portability. Views expressed in our workshops on other aspects of pensions such as coverage, women and pensions, and protection against inflation have been or will be more appropriately covered by my colleagues in their respective presentations.

Before starting, I should stress that vesting, locking-in and portability were discussed by delegates in the context of a non-mandatory plan. The conclusion should, therefore, be regarded as objectives for private pension plans. I should also point out that there was unanimous agreement that vesting, locking-in and portability provisions of pension plans had to be improved. However, there was no unanimity as to the manner and the degree at which these changes must be carried through.

There is a strong consensus in favour of improved vesting provisions. The objective is to move progressively toward full and immediate vesting over a relatively short period of time, with perhaps an initial move to five years or less of service as a requirement.

The administration of small vested benefits engenders serious problems which have been recognized. A short eligibility requirement for joining a pension plan, such as one year, appears to provide a partial solution to this problem. However, it causes other problems for employees with short periods of employment and part-time employees. In these latter instances, it might be appropriate to adopt the concept of "cumulative service" to satisfy eligibility requirements.

There is also consensus on the following items:

- Service alone should be considered as the criterion for vesting.
  Age is not a factor and this is particularly applicable in the case of women on account of their work pattern.
- Vesting without updating is meaningless.

There were also questions as to the appropriateness of vesting and of pension plan membership in the case of young people.

The views of delegates on the locking-in of pension contributions parallel the views already expressed on vesting. The move should be toward full and immediate locking-in and changes should be implemented simultaneously with changes in vesting requirements. It is generally felt that vesting without locking-in is useless and that the withdrawal of pension contributions should only be permitted in extreme cases such as disability.

Earlier in the discussion with respect to immediate and full vesting, a short eligibility period for joining pension plans, such as one year, was suggested as a partial solution *only* to the administrative nightmare that plan sponsors would experience as a result of large increases in the number of small vested benefits.

There is a strong support for a more complete solution to this problem through portability. Idealistically, benefits should be transferred from the pension plan of the former employer to the pension plan of the new employer under the terms of reciprocal agreements. Considering the differences in the pension plans of various employers and the reluctance of plan sponsors to be forced to accept new pension liabilities with respect to new employees, locked-in RRSP's are perceived by the majority to be the best possible route to take. The creation of a central agency requiring the establishment of a new bureaucracy appears unnecessary considering that RRSP's as a vehicle for such investments are already available. Contributions transferred to a locked-in RRSP could not be withdrawn until age 60.

It is perceived by many delegates that RRSP's would at least grow. There is, however, a view that these RRSP's should be regulated as to permissible types of investments in order to ensure preservation of capital.

There is no support for leaving contributions in the pension plan of a former employer unless it provides for some form of updating.

There is a consensus that employer contributions

should form part of the amount to be transferred. There was no specific indication as to what this percentage should be.

It was suggested that transfers of benefits to a Registered Home Ownership Savings Plan (RHOSP) be considered just as if it were an RRSP.

The establishment of multi-employer pension plans within an industry must be encouraged. These plans generally provide excellent portability features within the industry.

There were strong views that an expanded Canada/Quebec Pension Plan (C/QPP) would solve many of the problems relating to vesting, locking-in and portability. There were equally strong views that an expanded C/QPP would create other serious problems.

There was also the expression of a wish that greater uniformity in pension legislation be a priority for pension authorities.

It was recognized in some workshops that changes should not be applied retroactively because of cost implications and problems of equity.

Finally, there is great concern as to the costs associated with these proposed changes. It is accepted by almost everyone that pensions are no longer a reward for long service but deferred wages. Inasmuch as the ultimate objective of providing a pension at retirement has not changed, the approach is totally different. This evolution may impact on the design of our pension plans if these programs must continue to fulfill a useful role. It is generally accepted that in the process of adapting to current social needs, new costs will have to be faced.

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James Paterson

Report of Workshops on Protection Against Inflation

James Paterson

With one notable exception we had very lively discussions on the inflation protection topic. The discussions covered both the philosophical and practical aspects of the problem. For example, participants spoke of the needs of pensioners and their rights as well as the alternative approaches to provide inflation protection and the costs.

In the short time available, we will concentrate more on the practical problems of what should be done rather than on why it should, or should not, be done.

Several groups discussed the alternative of increasing C/QPP benefits rather than or in addition to providing more inflation protection in the private sector.

Referring to private pension plans, there was broad general agreement that there should be some form of inflation protection provided on a more widespread basis than exists today.

Several approaches to inflation protection were discussed. The approach which generated the most discussion and received the most support was the "excess interest" approach. Several participants, however, advocated "ad hoc" pension adjustments. Advantages cited were flexibility and the ability to concentrate benefit improvements where they are most needed. Other proposals, such as the direct indexing to CPI and the Inflation Tax Credit proposal generated considerably less discussion. The Inflation Tax Credit was criticized on the grounds of both cost and suggested design flaws.

It will be helpful to define the term "Excess Interest Indexing" here. This is a scheme under which the actual investment earnings on pension fund assets held on behalf of pensioners, over and above a "floor rate", are used to provide a lifetime increase in the pensions payable from the fund. In its "pure" form, the "floor rate" is equal to the "real" long-term rate of return, net of inflation, which can vary from less than 2% per annum to more than 4% per annum, depending on type of security—3% is a commonly suggested "floor rate". To illustrate this formula, if 1981 produced a 12% inflation rate and the pension fund earned 16%, the "excess interest" would be 16% minus 3%, or 13%. Under these circumstances, all pensions would be adjusted for 1982 by 13%. However, if the fund had earned only 14%, the pension adjustment would be 2% lower or 11%. For this formula to work, it is necessary for actuaries to value the pensioner liabilities for basic pensions at an interest rate not exceeding the "floor rate", since the investment earnings above the "floor rate" are already committed to finance the pension increases.

Many practical concerns with "excess interest indexing" were identified, such as the volatility of investment returns, and the fact that some of the inflationary investment earnings (i.e., up to 6% or 7%) have already been committed to finance improved basic benefits at retirement for current workers and pensioners.

Many participants suggested that the CPI was not representative of pensioner expenditures. Others pointed to recent studies which show little difference between pensioners and the general population on rates of loss of purchasing power. A few observers suggested that pensioner needs decline with age but this did not receive broad agreement. Many observers emphasized the need to fight inflation, not just to adapt to it. Some participants feared that implementation of pension adjustments would reduce the public will to fight inflation.

There were many opinions but there was no consensus as to whether or not the proposed inflation protection measures should be voluntary or mandatory. A number of proponents of voluntary inflation protection measures felt that mandatory inflation protection would be appropriate for mandated pensions. It was noted by some that, when left to their own choice, most Canadians appear to select a higher initial pension or annuity payment without indexing in preference to a smaller payment with contractual escalation built in.

Several participants suggested that inflation protection should not be required on all earnings or on all pension benefits; perhaps only on benefits up to a certain percentage of replacement income and up to a moderate earnings level.

Those groups which discussed it generally felt that substantial inflation protection should be provided to deferred vested pensions prior to retirement. Some participants suggested that employee and employer funds be transferred to locked-in RRSP's. Several suggested parallel treatment of deferred pensions and pensions in pay. There was little discussion of inflation protection for active employees.

Some groups noted the difficulty of shifting the financing of our present defined benefit system, from benefits financed on the anticipation of 6% or 7% long-term interest rates, to a new system of financing with "real" interest rates in the neighbourhood of 3%. Some felt that the changes should apply only to future service benefit accruals. Others suggested that gradual transi-

tional arrangements should be considered.

Several groups felt that any increased costs of providing inflation protection should be shared in some manner by employees and employers. A number of observers suggested that most of the increased employer costs would be reflected, sooner or later, in reduced direct compensation or reduced employee benefits. Several groups also felt that benefit levels in many pension plans may have to be reduced, if benefits are to have inflation protection mechanisms built in. It was recognized that a reduction in benefits would require a great deal of public education. Several observers felt that benefit reductions were not feasible; that they would be unacceptable to employees.

Several speakers expressed serious concern over the additional costs involved in providing meaningful inflation protection. Some also expressed serious concern over requiring employers to assume both the investment risk and the inflation risk. Others expressed concern over the shifting of investment and inflation risk on to the shoulders of the pensioner under the "excess interest" approach.

The foregoing summary is an accurate and substantially complete digest of the discussions which took place in the 16 "Inflation Protection" workshops.

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Appendices

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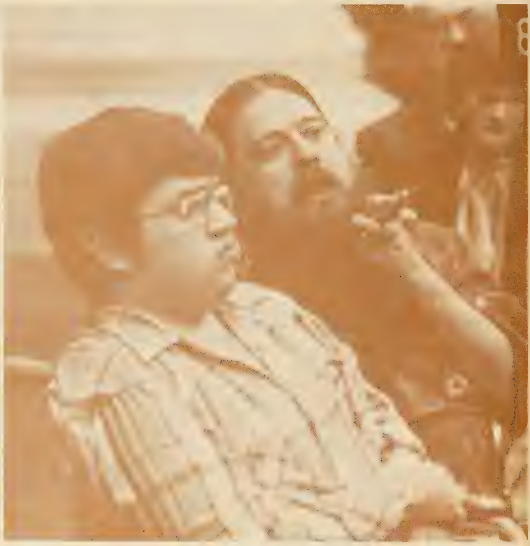

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Glossary of Expressions

The following definitions are extracted from the "Glossary of Expressions" included in the report "The Retirement Income System in Canada: Problems and Alternative Policies for Reform" prepared for the Government of Canada by the Task Force on Retirement Income Policy.

Actuarial Assumptions
Factors which enter into the calculations of pension costs, e.g. mortality rates, employee turnover, salary levels, investment earnings, etc.

Ad Hoc Adjustments
Adjustments of pensions-in-pay or of accrued benefits on an irregular, non-contractual basis.

Annuity
A payment of money under a contract commencing at a predetermined time or event and made annually or at more frequent intervals, either during the continuance of a given life or a combination of lives, or for a specified number of years.

Average Wages and Salaries (AWS)
Average earnings for the Industrial Composite as measured by Statistics Canada and reported in catalogue 72-002 *Employment, Earnings and Hours*. The Industrial Composite does not cover all employment. Firstly, only firms hiring 20 or more employees in any month of the year are included in the survey. Secondly, agriculture, fishing, trapping, non-commercial services, and public administration and defence are not covered. In 1976, the Industrial Composite was estimated by Statistics Canada to cover some 53% of total estimated employment.

Benefit
A general term applied to any form of payment which may be made to a person under the terms of a pension plan, depending on the circumstances.

Benefit Formula
A provision in a pension plan which establishes the method whereby the amount of an employee's pension is to be calculated, the amount being determined by multiplying either some fraction of the employee's earnings, or a fixed dollar amount, by the years of service under the employer's pension plan. For examples see Unit Benefit, Career Average, Flat Benefit and Final Average Formulae; see also Defined Benefit and Money Purchase Plans.

Best Average Benefit Formula
A benefit formula where the earnings component is the average level of earnings during a certain number of the highest paid years.

Career Average Benefit Formula
A benefit formula where the earnings component is an employee's average earnings during the whole period of his coverage under the plan. For example, the pension might be one-fiftieth of each year's earnings (i.e. 2% of his average earnings over all the years of coverage under the plan multiplied by the number of years of service).

Cash Withdrawal (Return of Contributions)
The taking of a refund of his contributions by an employee whose membership in a contributory pension plan has terminated.

COFIRENTES +
Comité d'étude sur le financement du Régime de rentes du Québec et sur les régimes supplémentaires de rentes. The pension review committee appointed by the Government of Québec. The committee's report was made public on March 14, 1978.

Compulsory Plan
A pension plan which eligible employees must join as a condition of employment.

Consolidated Revenue Fund Pension Plan
A plan under which contributions are paid into, and benefits are paid out of, the Consolidated Revenue Fund of a government with no external investment of the funds being made, although the use of the contributions by the sponsoring government may involve the recording of them as debt and the payment of interest on that debt.

Contributory Pension Plan
A pension plan under which both the employees and their employer make contributions. The employees' contributions are usually related to their earnings.

Current Service
Service by an employee as a member of a pension plan, which service is performed after the employee has become a member of that plan and is counted as service for the purpose of that plan.

Death Benefit

When applied to a pension plan, the sum of money paid in the event that a member of the pension plan dies before his pension has commenced.

Deferred Annuity or Deferred Pension

A life annuity payable at some future date to an employee whose membership in a pension plan has terminated before the normal pensionable age (often age 65) of the plan. Payments usually commence when the former employee reaches that normal pensionable age.

Deferred Profit Sharing Plan (DPSP)

A profit sharing plan under which the employer contributions are deductible under the Income Tax Act but are not taxable in the hands of the employee until they are received. The employees may or may not contribute but, if they do, their contributions are not deductible under the Income Tax Act. A DPSP is commonly used as a money purchase pension plan.

Deferred Retirement

Retirement at a time later than the normal retirement age under a pension plan.

Deferred Vesting

See Delayed Vesting.

Defined Benefit Formula

A generic term for any benefit formula which specifies, for a given level of income and period of service, the amount of pension that may become payable. See Defined Benefit Plan for an example. Career Average Benefit, Flat Benefit, Best and Final Average Benefit Formulae are all of the defined benefit type.

Defined Benefit Plan

A pension plan which provides a pension whose amount is determined by a Defined Benefit Formula. An example of such a plan is a Final Average Plan where the pension is equal to the number of years of service, up to 35, multiplied by 2% of the employee's average salary over the last five years of service (i.e. a maximum pension of 70% of average salary over the last five years of service).

Defined Contribution Plan

A pension plan in which there is an undertaking to set aside funds on a specified basis (such as 5% of pay). Contributions may be made by the employer and employees or by the employer alone. The amount of the pension payable is determined by the size of the capital sum available in respect of an employee when his pension is purchased. The size of the capital sum in turn reflects the pension contributions made by and in respect of the employee and the income which the contributions are deemed to have earned.

Delayed Vesting

Occurs when the employee does not gain a claim to the benefits accrued to the employee under the benefit formula until he has met some requirement, usually a prescribed period of service as a member of a plan, or attainment of a certain age, or both. See Vesting.

Demogrant

A benefit payment under a benefit system covering the entire population with eligibility for benefits being determined on demographic criteria such as age, residence, etc., but not dependent on income either before or after the age of entitlement. For example, the basic benefits payable under the Old Age Security Act are demogrants.

Early or Special Retirement Provision

A provision in a pension plan under which a long service employee may retire with an unreduced pension before the normal pensionable age in the plan. An example of this is a provision which permits an employee with 30 years of pensionable service to retire after attaining age 55 under a plan with a normal pensionable age of 60.

Employees Profit Sharing Plan (EPSP)

A profit sharing plan under which employer contributions are deductible for income tax purposes by the employer and declared as income by the employee. Employee contributions are permitted but are not tax deductible. Payments out of the fund are generally tax free.

Employer-Sponsored Plans

All pension plans offered by employers, whether in the private sector or the public sector, including governments, government agencies, etc. (In order that the plans may be registered for income tax purposes, employers must make contributions to such plans). Although all "employer-sponsored pension plans" are not "Registered Pension Plans", terms are often used interchangeably.

Excess Earnings

See Inflationary Earnings.

Experience Deficiency
A deficiency in the assets of a pension plan at the effective date of an actuarial review which is attributable to differences between the actuarial assumptions as to future experience decided on at the time of the preceding actuarial review and the actual experience in respect of those assumptions between the two reviews.

Final Average Benefit Formula
A benefit formula where the earnings taken into acount are the average level of earnings in the last few years before retirement. The number of years used in calculating the average varies, usually in the range from three to ten years. See also Final Earnings Benefit Formula.

Final Earnings Benefit Formula
A benefit formula where the earnings taken into account are those in the pay period (usually a year) immediately before retirement. See Final Average Benefit Formula.

Fixed Benefit
A pension whose amount is not increased for longer service or larger income. Usually payable only to those with a minimum period of service. A minimum pension resembles a fixed benefit.

Flat Benefit Formula
A benefit formula which provides a fixed (or flat) amount of pension for each period such as a month's or year's service, irrespective of the level of earnings of a plan member.

Full Vesting
The employee's right to the benefits attributable to all benefits accrued under the benefit formula, on termination of employment before retirement, usually in the form of a deferred pension payable at normal pensionable age, as distinct from Partial Vesting and Graded Vesting. See Vesting.

Fully Funded
When applied to a pension plan, means a pension plan that at any particular time has sufficient assets to provide for the payment of all pension and other benefits required to be paid under the terms of the plan in respect of service rendered by employees and former employees prior to that time.

Funding
Involves the orderly accumulation of assets, during the working lifetime of a group of employees which, together with the earnings of the assets, are expected to provide all pension, death and other benefits in respect of that group as they become payable in the future. See Consolidated Revenue Fund Pension Plan, Insured Pension Plan, Trusteed Pension Plan.

Funding or Funded Ratio
The ratio of the assets in a pension fund to the total liabilities of that fund.

Going Concern
When applied in relation to a pension plan, etc., means that the plan is not expected to be terminated or wound-up for an indefinite period of time.

Guaranteed Annuity
An annuity which will be paid for a specified period of time in any event and after that period for as long as the annuitant lives, e.g. under an annuity of $2,000 guaranteed for five years where, if the annuitant dies after three years, the annuity will continue to be payable to a beneficiary for two years.

Income-Tested Pension Plan
A public pension plan whose benefit payments are lower the higher the income of the recipient, e.g. the Guaranteed Income Supplement payable under the Old Age Security Act.

Indexing
The automatic adjusting of pensions-in-pay, or accrued pension benefits, in accordance with changes in an index such as the Consumer Price Index. This is to be distinguished from Ad Hoc Adjustments.

Inflationary Earnings
That portion of the return earned on the investment portfolio of a pension fund that is in excess of the rate of return assumed in the absence of inflation.

Insured Pension Plan
A plan under which an employee's benefits are purchased with the contributions of either or both the employer or employee when those contributions are received by the insurance company or other underwriter legally authorized to sell annuities.

Joint and Survivor Annuity
An annuity payable until the death of the retired employee (principal annuitant) and continuing thereafter in full or (usually) in part, during the life of a surviving person (joint annuitant) such as a widow or widower. In some cases the annuity is reduced on the death of either the employee or the joint annuitant.

Locking-In
A requirement under legislation that an employee's and his employer's contributions on his behalf made to the pension plan after a certain date cannot be forfeited or paid as a cash withdrawal if the employee, on termination of employment, has attained a certain age and/or has completed a certain period either of service or of plan membership. For example, under the federal Pension Benefits Standards Act, contributions made since September 30, 1967 are locked-in after the employee has attained 45 years of age and has completed 10 years either of service or of plan membership.

Means-Tested Pension Plan
A public pension plan whose benefits are reduced as the current income and asset position of the recipient increases, e.g. the Old Age Pension Act of 1927, and the Old Age Assistance Act of 1951.

Money Purchase Plan
The most common form of defined contribution plan described above under which contributions made at the rate specified in the plan are placed to the credit of each member and the pension is whatever amount those contributions plus their earnings will provide.

Multi-Employer Plan
A pension plan covering employees of more than one employer.

Non-Contributory Plan
A pension plan in which all contributions are made by the employer.

Normal Pensionable Age
The earliest age at which a member of a pension plan may receive an unreduced pension or annuity on terminating employment for any reason other than disability.

Normal Retirement Age
The age at which employees normally retire from the service of the employer.

Past Service
Service by an employee that is recognized for the purpose of a pension plan but performed before the employee became a member of that plan.

Past Service Liability
A liability assumed by an employer in respect of benefits with respect to service rendered by employees before the introduction or amendment of a pension plan, whichever is relevant.

Pay-As-You-Go
When applied to a pension plan, a system of financing under which payments are made from ordinary current revenues or other sources external to the plan, there being no assets set aside explicitly for meeting its obligations.

Pension
An annuity, or in some cases a similar but non-contractual payment, paid to a retired employee. The term 'pension' is also applied rather than 'annuity' to the regular payments made under public pension plans where no contract has been entered into for the payment of a specific amount of annuity. See Annuity, Joint and Survivor Annuity.

Pension Benefits Standards
The requirements which a pension plan has to meet under the federal Pension Benefits Standards Act and similar provincial legislation.

Period of Deferment
The period, prior to commencement of pension, during which a deferred annuity is in force. The period ends either when the annuity starts to be paid, or when a death benefit becomes payable in lieu of an annuity.

Plan Termination
Discontinuance of an employer-sponsored pension plan by direct or indirect action, including bankruptcy of the employer. There are various requirements under Pension Benefits Standards legislation designed to protect the position of members of the plan when this occurs.

Portability
The word portability may be used in two quite different senses. The first refers to the vesting provisions (defined below) which grant to an employee the right to the portion of the deferred pension benefit that has accrued under the benefit formula. The second use is in relation to arrangements for the transfer of pension credits whereby an employee's pensionable service with a prior employer can be included in calculating the pension to be provided by a subsequent employer.

Private Sector Plan
An employer-sponsored pension plan which is offered by an employer in the private sector.

Profit Sharing Pension Plan
A pension plan of the defined contribution type where the contributions are a function of the employer's profits. If it is registered as a pension plan under the Income Tax Act a minimum employer's contribution of 1% of the remuneration of employees covered by the plan must be made each year.

Profit Sharing Plan
An arrangement under which payments computed by reference to profits from his business are made by an employer in trust for the benefit of his employees whether or not the employees contribute.

Public Pension Plan (State Plan)
A pension plan such as OAS or C/QPP provided by a government in its role as a government rather than in its role as an employer.

Public Sector Plan
An employer-sponsored pension plan which is offered by an employer in the public sector. For example, the plans for employees of federal, provincial and municipal governments, Crown corporations, school boards, etc.

Registered Pension Plan (RPP)
An employer-sponsored pension plan which, on meeting the requirements of the federal and provincial governments, has been accepted for registration (thereby qualifying for favourable tax treatment) under the Income Tax Act.

Registered Retirement Income Plan
A general term used to describe the various retirement income plans registered under the Income Tax Act including Registered Pension Plans, Registered Retirement Savings Plans, Deferred Profit Sharing Plans.

Registered Retirement Savings Plan (RRSP)
A savings for retirement plan approved under the Income Tax Act whereby taxes are deferred on the contributions and the income they earn until the savings are withdrawn.

Return of Contributions
See Cash Withdrawal.

Terminal Funding
A method of funding a pension plan whereby, instead of systematically building up a fund during the employee's period of service, the entire cost of providing a pension for each employee is paid into the pension fund at the time of that employee's retirement from service. This expression may also be used to describe the procedure when a plan is wound up or an employee with vested benefits terminates employment without retiring, and the contributions required to provide the vested benefits are provided. Funding of this type is not permitted under Pension Benefits Standards legislation.

Termination
A severance of the relation between employer and employee, whether by deliberate withdrawal (quitting); by involuntary withdrawal owing to illness, accident, disability; or by discharge or lay-off not followed by rehiring. A generic term which includes severance for many causes other than death or retirement. See Termination Rate.

Termination Rate
The proportion of employed persons of a given age that terminate their employment while they are of that age, for reasons other than death or retirement. The rates may be calculated with respect to (1) all those on a payroll, or (2) all those other than labour defined as casual, or (3) members of a pension plan only. (In non-contributory plans where most of the staff automatically become plan members, there may be no difference between (1) and (3).)

Trusteed Pension Plan
A pension plan under which funds for future pension payments are placed in the care of a trustee who invests the funds or purchases annuities from a company authorized to sell annuities.

Unfunded Liability
The amount by which the assets of a pension fund need to be augmented to ensure that the plan is fully funded.

Unit Benefit Formula
A defined benefit formula that provides a unit of pension equal to a percentage of an employee's earnings for each year of participation in the plan. For example, see Career Average, Final Average and Final Earnings Benefits Formulae.

Universal Pension
A public pension plan covering the entire population subject to certain conditions. See Demogrant.

Updating of Deferred Pension
The periodic increase by an employer, usually in accordance with either a price or wage index, of the amount of a deferred pension to which a former employee is entitled.

Vesting
The employee's right, on termination of employment before retirement under a pension plan, to all or part of the benefit that has accrued to the employee under the normal retirement benefit formula of the plan up to the date of termination of employment. The resulting benefit is usually paid under the plan as a deferred annuity at either the normal pensionable age or the normal retirement age. In the most limited context in which the expression is used, vesting means the acquisition by an employee, in the case of a defined benefit plan, of a legal claim to a deferred pension calculated according to the benefit and vesting formula of the plan. In the case of a defined contribution plan, vesting means the employee's acquisition of the legal claim to the percentage of the pension fund attributable to the employer's contributions in respect of that employee stipulated in the vesting formula. Although vesting must be 100%, or full, for employees who have attained age 45 with 10 years of service or participation under plans subject to the federal and six provincial statutes on Pension Benefits Standards (see Locking-In) full or partial vesting may occur earlier, depending on the provision of the individual plan. Vesting more generous than required by legislation depends on the plan provisions. For example, if an employee with seven years of service leaves a contributory plan with a "five-year full-vesting" provision, he usually has the choice of receiving a return of his own contributions (usually with some interest) or a deferred annuity based on the seven years of service. Under a plan providing for immediate vesting an employee is immediately entitled to a full or partial benefit (Partial Vesting) accrued to him under the benefit formula and the vesting provisions of the plan. The expression Graded Vesting is used to describe an arrangement whereby there is a gradual progresson from no vesting through partial vesting to full vesting, of benefits accrued under the benefit formula. Graded vesting, for example, could provide 10% of the accrued benefit after one year, increasing uniformly to provide at the end of 10 years 100% of the benefit accrued according to the benefit formula. See Delayed Vesting, Full Vesting, Locking-In.